

**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
MCCREARY COUNTY FISCAL COURT**

June 30, 2011

The Auditor of Public Accounts has completed the audit of the McCreary County Fiscal Court for fiscal year ended June 30, 2011.

We have issued unqualified opinions on the governmental activities, each major governmental fund, and the aggregate remaining fund information financial statements of McCreary County, Kentucky.

The scope of our work was not sufficient to enable us to express an opinion of the financial statements of the business-type activities and the Jail Canteen Fund, a major enterprise fund, of McCreary County, Kentucky.

The financial data of the McCreary County Industrial Authority, a discretely presented component unit, has not been included in the financial statements. As a result, we have issued an adverse opinion on the aggregately discretely presented component units.

In accordance with OMB Circular A-133 we have issued an unqualified opinion on the compliance requirements that are applicable to McCreary County's major federal program: U.S. Department of Housing and Urban Development – Community Block Grant Program (CFDA #14.228)

Financial Condition:

The fiscal court had total net assets of \$10,865,119 as of June 30, 2011. The fiscal court had unrestricted net assets of \$1,661,380 in its governmental activities as of June 30, 2011, with total net assets of \$10,848,195. In its business-type activities, total net cash and cash equivalents were \$16,924 with total net assets of \$16,924. The fiscal court's discretely presented component units had net assets of \$793,039 as of June 30, 2011. The discretely presented component units had net cash and cash equivalents of \$57,962. The fiscal court had total debt principal as of June 30, 2011 of \$4,562,227 with \$541,368 due within the next year.

Report Comments:

- | | |
|---------|---|
| 2011-01 | The County Treasurer Should Maintain Accurate Financial Records |
| 2011-02 | The Fiscal Court Should Maintain Accurate Capital Asset Records |
| 2011-03 | The Fiscal Court Should Obtain And Award All Bids In Accordance With KRS 424.260 And The County's Administrative Code |
| 2011-04 | The Fiscal Court Should Improve Purchase And Procurement Procedures |
| 2011-05 | The Fiscal Court Should Properly Reconcile The Payroll Revolving Account |
| 2011-06 | The Fiscal Court Should Improve Internal Control Procedures Over Receipts And Disbursements By Maintaining Accurate Records And By Segregating Duties Over All Accounting Functions |
| 2011-07 | The Fiscal Court Should Improve Internal Controls Over Payroll |
| 2011-08 | The Fiscal Court Expended \$19,300 In Title III Funds For Improper Uses And Did Not Document The Use Of An Additional \$22,133 In Title III Funds |
| 2011-09 | The McCreary County Park Board Should Improve Internal Control Procedures Over Receipts And Disbursements By Maintaining All Required Records and By Segregating Duties Over All Accounting Functions |
| 2011-10 | The McCreary County Park Board Should Improve Purchase And Procurement Procedures |
| 2011-11 | The Solid Waste Board Should Improve Internal Control Procedures Over Receipts And Disbursements By Maintaining All Required Records And By Segregating Duties Over All Accounting Functions |
| 2011-12 | The Solid Waste Board Should Improve Purchase And Procurement Procedures |

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MCCREARY COUNTY FISCAL COURT
June 30, 2011
(Continued)

Report Comments: (Continued)

- 2011-13 The Jailer Should Maintain Accurate Records For The Jail Commissary Fund
- 2011-14 Funds Totaling \$18,152 Were Not Deposited To The Jail Commissary Fund And Deposits Were Not Always Made Intact Or In A Timely Manner
- 2011-15 Receipts Were Not Issued For All Jail Inmate Moneys Received And Some Receipts Were Altered After They Were Issued
- 2011-16 The Jailer Lacks Adequate Internal Controls Over Accounting Functions Of The Jail Commissary Fund And Lack An Adequate Segregation Of Duties
- 2011-17 Proper Documentation Should Be Maintained For All Jail Commissary Fund Expenditures And Invoices Should Be Paid Within Thirty Working Days
- 2011-18 The Jailer Should Transfer Fees Due To The Fiscal Court In A Timely Manner
- 2011-19 Sales Tax Reports Were Not Prepared Correctly by Jail And Were Not Always Submitted In A Timely Manner
- 2011-20 The McCreary County Airport Board Lacks An Adequate Segregation Of Duties Over All Accounting Functions
- 2011-21 The McCreary County Airport Board Should Improve Purchase And Procurement Procedures
- 2011-22 The Stearns Historical Area Development Authority (SHADA) Lacked An Adequate Segregation Of Duties Over All Accounting Functions
- 2011-23 The McCreary County Tourist Commission Should Improve Internal Control Procedures Over Receipts And Disbursements By Maintaining All Required Records And By Segregating Duties Over All Accounting Functions
- 2011-24 The McCreary County Tourist Commission Should Report All Wages To The Fiscal Court
- 2011-25 The McCreary County Tourist Commission Should Improve Purchase And Procurement Procedures
- 2011-26 The County Treasurer Should Sign All Warrants For Payment Of Funds From The County Treasury (A-133 Compliance Comment)

Deposits:

The fiscal court and component units' deposits were insured and collateralized by bank securities or bonds.

<u>CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT.....	1
MCCREARY COUNTY OFFICIALS	5
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	9
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	12
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	16
B STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES	
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	20
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF	
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	25
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	29
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	33
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS	37
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS	41
STATEMENT OF NET ASSETS – COMPONENT UNITS - MODIFIED CASH BASIS	45
STATEMENT OF ACTIVITIES – COMPONENT UNITS - MODIFIED CASH BASIS	49
NOTES TO FINANCIAL STATEMENTS.....	51
COMBINING BALANCE SHEET -	
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	74
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES	
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	78
BALANCE SHEET – COMPONENT UNITS - MODIFIED CASH BASIS	83
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES	
IN FUND BALANCES – COMPONENT UNITS - MODIFIED CASH BASIS.....	87
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF	
COMPONENT UNITS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	91
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	95
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	97
BUDGETARY COMPARISON INFORMATION	101
NOTES TO OTHER INFORMATION	104
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	109
REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON	
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	113
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	117
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Douglas Stephens, McCreary County Judge/Executive

Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major governmental fund, and the aggregate remaining fund information of McCreary County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the McCreary County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We were engaged to audit the accompanying financial statements of the business-type activities and the Jail Canteen Fund, a major enterprise fund, of McCreary County, Kentucky, as of and for the year ended June 30, 2011. These financial statements are the responsibility of the McCreary County Jailer.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, McCreary County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Jail Canteen Fund is presented as a major enterprise fund and financial information about the Jail Canteen Fund is a part of the business-type activities. The McCreary County Jailer does not maintain adequate accounting records for the Jail Canteen Fund to satisfy the guidelines for minimum accounting and reporting standards as prescribed by the State Local Finance Officer for the Commonwealth of Kentucky. These guidelines are to be utilized by county jailers for maintaining jail commissary funds. Since the Jailer's accounting records are not adequate, the financial information presented for the assets, liabilities, net assets, revenues, and expenses of the Jail Canteen Fund and the business-type activities cannot be determined to be reasonably accurate.



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The financial statements of McCreary County, Kentucky do not include the financial data of the McCreary County Industrial Authority. This entity meets the criteria to be reported as a discretely presented component unit of McCreary County, Kentucky, in accordance with accounting principles generally accepted in the United States of America.

Because of the significance of the matters discussed in the fifth paragraph, the scope of our work was not sufficient to enable us to express and we do not express, an opinion of the financial statements of the business-type activities and the Jail Canteen Fund, a major enterprise fund, of McCreary County, Kentucky, as of June 30, 2011, or the changes in financial position and cash flows thereof for the year ended in conformity with the basis of accounting described in Note 1.

In our opinion, because of the omission of financial data for the McCreary County Industrial Authority, the financial statements referred to above do not present fairly, in all material aspects, the respective financial position of the aggregate discretely presented component units of McCreary County, Kentucky, as of June 30, 2011, or the changes in financial position and cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of McCreary County, Kentucky, as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise McCreary County, Kentucky's basic financial statements as a whole. The combining fund financial statements, fund financial statements of the component units, and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining fund financial statements, fund financial statements of the component units, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements, fund financial statements of the component units, and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole. The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

To the People of Kentucky
 Honorable Steven L. Beshear, Governor
 Lori H. Flanery, Secretary
 Finance and Administration Cabinet
 Honorable Douglas Stephens, McCreary County Judge/Executive
 Members of the McCreary County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 27, 2012 on our consideration of McCreary County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2011-01 The County Treasurer Should Maintain Accurate Financial Records
- 2011-02 The Fiscal Court Should Maintain Accurate Capital Asset Records
- 2011-03 The Fiscal Court Should Obtain And Award All Bids In Accordance With KRS 424.260 And The County's Administrative Code
- 2011-04 The Fiscal Court Should Improve Purchase And Procurement Procedures
- 2011-05 The Fiscal Court Should Properly Reconcile The Payroll Revolving Account
- 2011-06 The Fiscal Court Should Improve Internal Control Procedures Over Receipts And Disbursements By Maintaining Accurate Records And By Segregating Duties Over All Accounting Functions
- 2011-07 The Fiscal Court Should Improve Internal Controls Over Payroll
- 2011-08 The Fiscal Court Expended \$19,300 In Title III Funds For Improper Uses And Did Not Document The Use Of An Additional \$22,133 In Title III Funds
- 2011-09 The McCreary County Park Board Should Improve Internal Control Procedures Over Receipts And Disbursements By Maintaining All Required Records and By Segregating Duties Over All Accounting Functions
- 2011-10 The McCreary County Park Board Should Improve Purchase And Procurement Procedures
- 2011-11 The Solid Waste Board Should Improve Internal Control Procedures Over Receipts And Disbursements By Maintaining All Required Records And By Segregating Duties Over All Accounting Functions
- 2011-12 The Solid Waste Board Should Improve Purchase And Procurement Procedures
- 2011-13 The Jailer Should Maintain Accurate Records For The Jail Commissary Fund
- 2011-14 Funds Totaling \$18,152 Were Not Deposited To The Jail Commissary Fund And Deposits Were Not Always Made Intact Or In A Timely Manner
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- 2011-16 The Jailer Lacks Adequate Internal Controls Over Accounting Functions Of The Jail Commissary Fund And Lack An Adequate Segregation Of Duties
- 2011-17 Proper Documentation Should Be Maintained For All Jail Commissary Fund Expenditures And Invoices Should Be Paid Within Thirty Working Days
- 2011-18 The Jailer Should Transfer Fees Due To The Fiscal Court In A Timely Manner
- 2011-19 Sales Tax Reports Were Not Prepared Correctly by Jail And Were Not Always Submitted In A Timely Manner
- 2011-20 The McCreary County Airport Board Lacks An Adequate Segregation Of Duties Over All Accounting Functions
- 2011-21 The McCreary County Airport Board Should Improve Purchase And Procurement Procedures

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- 2011-22 The Stearns Historical Area Development Authority (SHADA) Lacked An Adequate Segregation Of Duties Over All Accounting Functions
- 2011-23 The McCreary County Tourist Commission Should Improve Internal Control Procedures Over Receipts And Disbursements By Maintaining All Required Records And By Segregating Duties Over All Accounting Functions
- 2011-24 The McCreary County Tourist Commission Should Report All Wages To The Fiscal Court
- 2011-25 The McCreary County Tourist Commission Should Improve Purchase And Procurement Procedures
- 2011-26 The County Treasurer Should Sign All Warrants For Payment Of Funds From The County Treasury (A-133 Compliance Comment)

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

June 27, 2012

MCCREARY COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

Douglas Stephens	County Judge/Executive
Stanley Cox	Magistrate
Roger Phillips	Magistrate
Jason Mann	Magistrate
Frankie Ball	Magistrate

Other Elected Officials:

Michele Wilson Jones	County Attorney
Tony Ball	Jailer
Eric Haynes	County Clerk
Othel King	Circuit Court Clerk
Gus H. Skinner Jr.	Sheriff
Bruce Lominac	Property Valuation Administrator
Daniel Ridner	Coroner

Appointed Personnel:

Donna Ross	County Treasurer
Stephanie Tucker	Occupational Tax Collector
Candice Greene	Finance Officer

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MCCREARY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

MCCREARY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	Primary Government			Component
	Governmental	Business-type	Totals	Units
	Activities	Activities		
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,710,993	\$ 16,924	\$ 1,727,917	\$ 57,962
Notes Receivable Due Within One Year	120,876		120,876	
Total Current Assets	<u>1,831,869</u>	<u>16,924</u>	<u>1,848,793</u>	<u>57,962</u>
Noncurrent Assets:				
Notes Receivable Due In More Than One Year	534,229		534,229	
Allowance for Doubtful Accounts	(266,085)		(266,085)	
Capital Assets - Net of Accumulated Depreciation				
Construction In Progress	1,426,714		1,426,714	88,833
Land and Land Improvements	746,369		746,369	393,920
Buildings	7,220,447		7,220,447	197,017
Other Equipment	639,889		639,889	55,307
Vehicles and Equipment	423,533		423,533	
Infrastructure	2,853,457		2,853,457	
Total Noncurrent Assets	<u>13,578,553</u>		<u>13,578,553</u>	<u>735,077</u>
Total Assets	<u>15,410,422</u>	<u>16,924</u>	<u>15,427,346</u>	<u>793,039</u>
LIABILITIES				
Current Liabilities:				
Revenue Bonds	330,000		330,000	
Lease	45,833		45,833	
Financing Obligations	165,515		165,515	
Total Current Liabilities	<u>541,348</u>		<u>541,348</u>	
Noncurrent Liabilities:				
Revenue Bonds	3,045,000		3,045,000	
Lease	362,500		362,500	
Financing Obligations	613,379		613,379	
Total Noncurrent Liabilities	<u>4,020,879</u>		<u>4,020,879</u>	
Total Liabilities	<u>4,562,227</u>		<u>4,562,227</u>	
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	8,748,182		8,748,182	735,077
Restricted For:				
Economic Development	83,540		83,540	
Protection to Persons and Property	30,574		30,574	
General Health and Sanitation	29,771		29,771	
Recreation and Culture	25,000		25,000	
Roads	269,748		269,748	
Unrestricted	1,661,380	16,924	1,678,304	57,962
Total Net Assets	<u>\$ 10,848,195</u>	<u>\$ 16,924</u>	<u>\$ 10,865,119</u>	<u>\$ 793,039</u>

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011

MCCREARY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,549,559	\$ 81,796	\$ 112,370	\$
Protection to Persons and Property	2,456,330	973,244	138,335	
General Health and Sanitation	145,791		37,897	
Social Services	2,321			
Recreation and Culture	170,317	3,833		479,424
Roads	898,337			1,300,707
Road Facilities	353,928	11,987	269,987	
Interest On Debt Service	144,668			233,655
Capital Projects	15,000			
Total Governmental Activities	5,736,251	1,070,860	558,589	2,013,786
Business-type Activities:				
Jail Commissary	45,383	38,125		
Total Business-type Activities	45,383	38,125		
Total Primary Government	\$ 5,781,634	\$ 1,108,985	\$ 558,589	\$ 2,013,786
Component Units:				
McCreary County Airport Board	\$ 22,718	\$ 720	\$	\$ 23,707
Stearns Historical Area Development Authority (SHADA)	5,515			13,409
McCreary County Tourist Commission	55,908			36,101
Total Component Units	\$ 84,141	\$ 720	\$ 0	\$ 73,217

General Revenues:

Taxes:

Real Property Taxes
Motor Vehicle Taxes
Occupational Taxes
Other Taxes

In Lieu Tax Payments

Excess Fees

Miscellaneous Revenues

Interest Received

Book Value Of Capital Assets Of SHADA Donated
To McCreary County Heritage Foundation
Debt Service Paid On Behalf Of SHADA
By McCreary County Heritage Foundation

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Component Units
\$ (1,355,393)	\$	\$ (1,355,393)	\$
(1,344,751)		(1,344,751)	
(107,894)		(107,894)	
(2,321)		(2,321)	
312,940		312,940	
402,370		402,370	
(71,954)		(71,954)	
88,987		88,987	
(15,000)		(15,000)	
(2,093,016)		(2,093,016)	
	(7,258)	(7,258)	
	(7,258)	(7,258)	
(2,093,016)	(7,258)	(2,100,274)	
			1,709
			7,894
			(19,807)
			(10,204)
304,904		304,904	
110,249		110,249	
1,086,100		1,086,100	
529,411		529,411	19,342
720,081		720,081	
24,334		24,334	
771,113		771,113	2,392
13,437	30	13,467	473
			(1,161,781)
			207,028
3,559,629	30	3,559,659	(932,546)
1,466,613	(7,228)	1,459,385	(942,750)
9,381,582	24,152	9,405,734	1,735,789
\$ 10,848,195	\$ 16,924	\$ 10,865,119	\$ 793,039

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

MCCREARY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	General Fund	Road Fund	Occupational Tax Fund	McCreary County Park Board
ASSETS				
Cash and Cash Equivalents	\$ 908,496	\$ 269,748	\$ 52,612	\$ 300,742
Total Assets	<u>908,496</u>	<u>269,748</u>	<u>52,612</u>	<u>300,742</u>
FUND BALANCES				
Restricted:				
Economic Development				
Protection to Persons and Property	30,574			
General Health and Sanitation				
Recreation and Culture				
Roads		269,748		
Committed:				
Economic Development			12,124	
Protection to Persons and Property			26,546	
Recreation and Culture			13,942	
Assigned:				
Economic Development	344,287			
Protection to Persons and Property	53,683			
General Health and Sanitation				
Recreation and Culture				300,742
Unassigned	<u>479,952</u>			
Total Fund Balances	<u>\$ 908,496</u>	<u>\$ 269,748</u>	<u>\$ 52,612</u>	<u>\$ 300,742</u>

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2011
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 179,395</u>	<u>\$ 1,710,993</u>
<u>179,395</u>	<u>1,710,993</u>
83,540	83,540
	30,574
29,771	29,771
25,000	25,000
	269,748
	12,124
	26,546
	13,942
	344,287
36,018	89,701
5,066	5,066
	300,742
<u> </u>	<u>479,952</u>
<u>\$ 179,395</u>	<u>\$ 1,710,993</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,710,993
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Notes Receivable are not considered current resources, and therefore, are not reported in the funds.	655,105
Allowance for Doubtful Accounts do not impact current resources, and therefore, are not reported in the funds.	(266,085)
Capital Assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	16,299,091
Accumulated Depreciation	(2,988,682)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Revenue Bonds	(3,375,000)
Lease	(408,333)
Financing Obligations	(778,894)
Net Assets Of Governmental Activities	<u>\$ 10,848,195</u>

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

MCCREARY COUNTY
B STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	<u>General Fund</u>	<u>Road Fund</u>	<u>Occupational Tax Fund</u>	<u>McCreary County Park Board</u>
REVENUES				
Taxes	\$ 574,750	\$	\$ 1,086,100	\$
In Lieu Tax Payments	152,684	567,397		
Excess Fees	24,334			
Licenses and Permits	89,945			
Intergovernmental	786,846	1,570,694		11,000
Charges for Services	882,652	11,987		3,833
Miscellaneous	238,712	113,534		173,110
Interest	3,687	785	385	536
Total Revenues	<u>2,753,610</u>	<u>2,264,397</u>	<u>1,086,485</u>	<u>188,479</u>
EXPENDITURES				
Current:				
General Government	832,181		118,422	
Protection to Persons and Property	2,018,290			
General Health and Sanitation	111,707			
Social Services	2,321			
Recreation and Culture	48,315		30,749	36,994
Transportation Facilities and Services	57,500	296,428		
Roads	600	1,014,770		
Debt Service:				
Principal	76,573	11,375		50,000
Interest	29,922	4,250		4,458
Capital Projects	15,000			555,060
Administration	719,714	533,149		17,611
Total Expenditures	<u>3,912,123</u>	<u>1,859,972</u>	<u>149,171</u>	<u>664,123</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,158,513)</u>	<u>404,425</u>	<u>937,314</u>	<u>(475,644)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	1,375,118			204,990
Transfers To Other Funds	(599,348)	(241,743)	(919,548)	
Total Other Financing Sources (Uses)	<u>775,770</u>	<u>(241,743)</u>	<u>(919,548)</u>	<u>204,990</u>
Net Change in Fund Balances	(382,743)	162,682	17,766	(270,654)
Fund Balances - Beginning	1,291,239	107,066	34,846	571,396
Fund Balances - Ending	<u>\$ 908,496</u>	<u>\$ 269,748</u>	<u>\$ 52,612</u>	<u>\$ 300,742</u>

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 173,835	\$ 1,834,685
	720,081
	24,334
	89,945
739,976	3,108,516
	898,472
27,320	552,676
8,045	13,438
<u>949,176</u>	<u>7,242,147</u>
50,000	1,000,603
215,768	2,234,058
30,862	142,569
	2,321
	116,058
	353,928
	1,015,370
166,099	304,047
93,835	132,465
443,425	1,013,485
64,807	1,335,281
<u>1,064,796</u>	<u>7,650,185</u>
<u>(115,620)</u>	<u>(408,038)</u>
180,531	1,760,639
	<u>(1,760,639)</u>
<u>180,531</u>	
64,911	(408,038)
114,484	2,119,031
<u>\$ 179,395</u>	<u>\$ 1,710,993</u>

The accompanying notes are an integral part of the financial statements.

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**MCCREARY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

MCCREARY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ (408,038)
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	2,412,798
Depreciation Expense	(411,533)
Construction In Progress Finished During Current Year	(476,441)
Payments received on Notes Receivable provide a current financial resource to Governmental Funds while reducing the Receivables at the government-wide level; therefore, the activity has been eliminated on the Statement Of Activities.	(39,283)
Notes Receivable loaned in current period	95,000
Change In Allowance for Doubtful Accounts	(66,085)
The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.	
Revenue Bond Principal Payments	140,000
Lease Principal Payments	50,000
Financing Obligations Principal Payments	<u>170,195</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,466,613</u>

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MCCREARY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

MCCREARY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Commissary Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 16,924
Total Current Assets	<u>16,924</u>
 Fund Net Assets	
Unrestricted	16,924
Total Fund Net Assets	<u><u>\$ 16,924</u></u>

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Commissary Fund
Operating Revenues	
Canteen Sales	\$ 38,125
Total Operating Revenues	<u>38,125</u>
Operating Expenses	
Cost of Sales	31,729
Educational and Recreational	711
Sales Tax	3,597
Work Release Expenses	1,929
Office Supplies	662
Drug Testing Kits	459
Refunds to Prisoners	6,275
Miscellaneous	<u>21</u>
Total Operating Expenses	<u>45,383</u>
Operating Income (Loss)	<u>(7,258)</u>
Nonoperating Revenues (Expenses)	
Interest Income	<u>30</u>
Total Nonoperating Revenues (Expenses)	<u>30</u>
Change In Fund Net Assets	(7,228)
Total Fund Net Assets - Beginning (Restated)	<u>24,152</u>
Total Fund Net Assets - Ending	<u><u>\$ 16,924</u></u>

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

MCCREARY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Commissary Fund
Cash Flows From Operating Activities	
Payments From Customers	\$ 38,125
Payments to Vendors	(35,051)
Payments To State	(3,597)
Payments To Other Sources	(6,735)
Net Cash Provided (Used) By Operating Activities	(7,258)
Cash Flows From Investing Activities	
Interest Earned	30
Net Cash Provided By Investing Activities	30
Net Increase (Decrease) in Cash and Cash Equivalents	(7,228)
Cash and Cash Equivalents - July 1, 2010 (Restated)	24,152
Cash and Cash Equivalents - June 30, 2011	\$ 16,924
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ (7,258)
Net Cash Provided (Used) By Operating Activities	\$ (7,258)

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

MCCREARY COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	<u>Agency Fund</u>
	Jail Inmate Fund
	<u> </u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 2,378</u>
Total Assets	<u> 2,378</u>
Liabilities	
Amounts Held In Custody For Others	<u> 2,378</u>
Total Liabilities	<u> 2,378</u>
Net Assets	<u><u> \$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF NET ASSETS – COMPONENT UNITS - MODIFIED CASH BASIS

June 30, 2011

MCCREARY COUNTY
STATEMENT OF NET ASSETS – COMPONENT UNITS - MODIFIED CASH BASIS

June 30, 2011

	McCreary County Airport Board	McCreary County Tourist Commission	Totals
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 47,968	\$ 9,994	\$ 57,962
Total Current Assets	<u>47,968</u>	<u>9,994</u>	<u>57,962</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	88,833		88,833
Land	91,000		91,000
Land Improvements	302,920		302,920
Buildings	197,017		197,017
Other Equipment	55,307		55,307
Total Noncurrent Assets	<u>735,077</u>		<u>735,077</u>
Total Assets	<u>783,045</u>	<u>9,994</u>	<u>793,039</u>
Net Assets			
Invested in Capital Assets	735,077		735,077
Unrestricted	47,968	9,994	57,962
Total Net Assets	<u>\$ 783,045</u>	<u>\$ 9,994</u>	<u>\$ 793,039</u>

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF ACTIVITIES – COMPONENT UNITS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

MCCREARY COUNTY
STATEMENT OF ACTIVITIES – COMPONENT UNITS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Functions/Programs Reporting Entity	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes In Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
McCreary County					
Airport Board	\$ 22,718	\$ 720	\$	\$ 23,707	\$ 1,709
Stearns Historical Area					
Development Authority (SHADA)	5,515			13,409	7,894
McCreary County					
Tourist Commission	55,908			36,101	(19,807)
Total Component Units	<u>\$ 84,141</u>	<u>\$ 720</u>	<u>\$ 0</u>	<u>\$ 73,217</u>	<u>(10,204)</u>
General Revenues:					
Taxes					19,342
Miscellaneous Revenues					2,392
Accrued Interest Received					473
Book Value Of Capital Assets Of SHADA Donated To McCreary County Heritage Foundation					(1,161,781)
Debt Service Paid On Behalf Of SHADA By McCreary County Heritage Foundation					<u>207,028</u>
Total General Revenues					<u>(932,546)</u>
Change in Net Assets					(942,750)
Net Assets - Beginning (Restated)					<u>1,735,789</u>
Net Assets - Ending					<u>\$ 793,039</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	51
NOTE 2.	DEPOSITS	60
NOTE 3.	OPERATING LEASES	60
NOTE 4.	RECEIVABLES	61
NOTE 5.	CAPITAL ASSETS	62
NOTE 6.	LONG-TERM DEBT	64
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM	69
NOTE 8.	INSURANCE	70
NOTE 9.	RELATED PARTY TRANSACTIONS	71
NOTE 10.	CHANGE IN ACCOUNTING PRINCIPLE.....	71
NOTE 11.	PRIOR PERIOD ADJUSTMENTS	71

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of McCreary County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

There is no incorporated city within McCreary County; therefore, the below entities cannot be included as part of another local government within McCreary County. Based upon criteria stated in GASB Statements 14 and 39, the following legally separate entities are considered as part of the reporting entity of the McCreary County Fiscal Court:

- McCreary County Park Board
- McCreary County Courthouse and Public Square Corporation
- Solid Waste Board
- McCreary County Airport Board
- Stearns Historical Area Development Authority
- McCreary County Tourist Commission
- McCreary County Industrial Development Authority

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

McCreary County Park Board

The McCreary County Park Board is a legally separate entity established to provide oversight of construction and the running of the operations of the McCreary County Park. The Board's governing body consists of members appointed by the Fiscal Court. Therefore, management must include the Board as a component unit, and the Board's financial activity is blended with that of the Fiscal Court.

McCreary County Courthouse and Public Square Corporation

The McCreary County Courthouse and Public Square Corporation (Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

Solid Waste Board

The Solid Waste Board was established by the McCreary County Fiscal Court to administer solid waste activities within the county. The McCreary County Fiscal Court collects a franchise fees tax, which the Board utilizes to work toward cleaning up and preventing solid waste within the county. Therefore, management must include the Board as a component unit, and the Board's financial activity is blended with that of the Fiscal Court.

Discretely Presented Component Units

The component units' columns in the combined financial statements include the data of the following organizations. They are reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Units" to emphasize these organizations' separateness from the fiscal court's primary government.

McCreary County Airport Board

The McCreary County Fiscal Court established the McCreary County Airport Board (Board). The Board is responsible for the building, expansion, and maintenance of an airport within the county. The Fiscal Court's objective of having an airport is that an airport will promote industrial development within the county. The Fiscal Court appoints a voting majority of the Board which is different from the members of the Fiscal Court. The Fiscal Court can impose their will on the Board and the Board can impose a financial benefit or burden on the Fiscal Court. Therefore, management must include the Board as a component unit, and the Board's financial activity will be discretely presented with that of the Fiscal Court.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

Stearns Historical Area Development Authority

The McCreary County Fiscal Court established the Stearns Historical Area Development Authority (SHADA). It was created by the Fiscal Court to account for receipts and expenditures relating to the project to restore and revitalize historical buildings in Stearns, Kentucky. The Stearns community is a former coal-mining town, which is a tourist attraction for McCreary County. The property in Stearns is leased out to and is operated by the McCreary County Heritage Foundation, which is a not-for-profit organization that is legally separate from the McCreary County Fiscal Court. Therefore, management must include SHADA as a component unit, and the authority's financial activity will be discretely presented with that of the Fiscal Court. The McCreary County Fiscal Court dissolved SHADA on December 14, 2010. Capital assets belonging to SHADA as of December 14, 2010 were donated to the McCreary County Heritage Foundation (Foundation). Title to all properties was transferred to the Foundation. The book value of these capital assets was \$1,161,781. After SHADA used their remaining cash balance to pay on their financing obligations, SHADA still owed principal of \$206,391 and interest of \$637 on their financing obligations. The Foundation paid off SHADA's financing obligations in full. The McCreary County Heritage Foundation will not be presented as part of the fiscal court's reporting entity, since it is independent of the Fiscal Court.

McCreary County Tourist Commission

The McCreary County Tourist Commission (Commission) was established by the McCreary County Fiscal Court for the purpose of promoting recreational, tourism, and convention activities within the county. The Fiscal Court does not appoint a voting majority of the Commission, however, in order to finance the operations of the Commission, the Fiscal Court levies a transient room tax of three (3%) which is collected by the Commission. In addition, the Fiscal Court provides additional financial support by providing 3% of net occupational tax collections to the Commission. Therefore, management must include the Commission as a component unit, and the Commission's financial activity will be discretely presented with that of the Fiscal Court.

McCreary County Industrial Development Authority

The McCreary County Fiscal Court established the McCreary County Industrial Development Authority (Authority) solely for the purpose of acquiring and improving interest in real estate and other facilities and properties for the ultimate benefit of the county. The Authority consists of six members. The County Judge/Executive appoints all members of the Authority, which are different from the members of the Fiscal Court, with Fiscal Court approval. The Authority's functions include the recruitment and retention of industry and promotion of economic and industrial development within the county. Therefore, management must include the Authority as a component unit and the Authority's financial activities should have been discretely presented with that of the Fiscal Court. However, the Authority's financial statements were not furnished to us and have not been included. On June 14, 2011, the Fiscal Court dissolved the McCreary County Industrial Development Authority. All assets of the Authority were transferred to the Fiscal Court. The Fiscal Court deposited funds received from the Authority into the Economic Development Fund which is included in the General Fund in the Fiscal Court's financial statements.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. McCreary County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting McCreary County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of McCreary County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Occupational Tax Fund – The primary purpose of this fund is to account for the collection of occupational tax. The primary source of revenue for this fund is occupational employment tax and net profit tax.

McCreary County Park Board – The primary purpose of this fund is to account for receipts collected by the McCreary County Park.

The primary government also has the following non-major funds: Emergency 911 Dispatch Fund, Scott-McCreary Area Revitalization Team (SMART) Works Fund, 109 Grant Fund, Multi-Generational Center Fund, the McCreary County Courthouse and Public Square Corporation, and Solid Waste Board.

Special Revenue Funds:

The Road Fund, Occupational Tax Fund, McCreary County Park Board, Emergency 911 Dispatch Fund, Scott-McCreary Area Revitalization Team (SMART) Works Fund, 109 Grant Fund, Multi-Generational Center Fund, and the Solid Waste Board are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

Debt Service Fund:

The McCreary County Courthouse and Public Square Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund is charges to customers for sales in the Jail Commissary Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund, the Jail Inmate Fund, is used to account for inmate monies held by the Jailer for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund – Accounts for funds received from inmates and held until inmates use these funds or are released from custody.

Presentation of Component Units

The financial statements present the following major discretely presented component units: McCreary County Airport Board, the Stearns Historical Area Development Authority, and the McCreary County Tourist Commission. The McCreary County Industrial Development Authority is not presented in the current year.

The McCreary County Airport Board accounts for activities relating to the county airport. The McCreary County Fiscal Court's significant transaction with the Board for the fiscal year ended June 30, 2011 was \$21,339 for Enterprise Community Grant benchmark activities.

The Stearns Historical Area Development Authority (SHADA) accounts for activities relating to the projects to restore and revitalize the buildings in Stearns, Kentucky. SHADA was dissolved by the Fiscal Court on December 14, 2010. All capital assets belonging to SHADA were donated to the McCreary County Heritage Foundation and all remaining debt was paid off by McCreary County Heritage Foundation.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Presentation of Component Units (Continued)

The McCreary County Tourist Commission (Commission) accounts for activities relating to promoting recreational, tourism, and convention activities within the county. The McCreary County Fiscal Court levies a transient room tax of three (3%) which is collected by the Commission. In addition, the Fiscal Court provides additional financial support by providing 3% of net occupational tax collections to the Commission. The Fiscal Court's significant transaction with the Commission for the fiscal year ended June 30, 2011 was payments of \$30,749 from the county's Occupational Tax Fund.

The McCreary County Industrial Development Authority accounts for activities relating to the recruitment and retention of industry and promotion of economic and industrial development within the county. The McCreary County Fiscal Court's significant transaction with the Authority for the fiscal year ended June 30, 2011 was payments of \$118,423 from the county's Occupational Tax Fund. The McCreary County Industrial Development Authority was dissolved by the Fiscal Court on June 14, 2011. The Authority's cash balance of \$257,719 was transferred to the Fiscal Court. The Fiscal Court deposited these funds to the Economic Development Fund which is included in the General Fund in the Fiscal Court's financial statements.

These component units, with the exception of the McCreary County Industrial Development Authority, are presented in a separate column in the combined financial statements. They are also reported on the Statement of Net Assets and the Statement of Activities in a separate total column that is labeled as "Component Units" to emphasize these organizations' separateness from the fiscal court's primary government.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings	\$ 5,000	10-75
Building Improvements	\$ 5,000	20-25
Machinery and Equipment	\$ 5,000	3-25
Infrastructure	\$ 5,000	10-50
Intangible	\$ 5,000	2-40

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

For resources considered assigned, the county has designated the County Judge/Executive to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget was not adopted for the McCreary County Courthouse Public Square Corporation Fund, a blended component unit. The corporation issued bonds for the addition of the judicial building, which the Administrative Office of the Courts (AOC) has occupied, onto the existing courthouse. The fiscal court has assumed responsibility for this debt; however, AOC has entered into a leasing agreement with the county agreeing to pay all of the bond payments directly to the bondholders, on behalf of the Fiscal Court. Therefore, the county did not budget any bond payments to be made from the county's funds.

Formal budgets were not adopted for the McCreary County Park Board and Solid Waste Board because these entities are component units of the fiscal court and the financial activity is not required to be included in the budget of the primary government. The Fiscal Court established these entities as component units, which are operated independently of the McCreary County Fiscal Court. These entities are included as blended component units on the county's financial statements.

Formal budgets were not adopted for the McCreary County Airport Board, the Stearns Historical Area Development Authority, the McCreary County Tourist Commission, and the McCreary County Industrial Development Authority because these entities are component units of the fiscal court and the financial activity is not required to be included in the budget or financial statement of the primary government. The Fiscal Court established these entities as component units, which are operated independently of the McCreary County Fiscal Court. These entities are included as discretely presented component units on the county's financial statements.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (D). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

A. Investments

As of June 30, 2011, the county did not have any investments.

Note 3. Operating Leases

The fiscal court entered into various lease agreements for copying machines to be used by various county departments. The total expense related to these leases was \$9,641 for the fiscal year ended June 30, 2011. The future minimum lease payments for these leases are as follows:

Fiscal Year Ended June 30	Amount
2012	\$ 6,819
2013	3,456
2014	780
Total Minimum Lease Payments	<u>\$ 11,055</u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Receivables

In 1994, McCreary County, in cooperation with Scott County, Tennessee, formed the Rural Enterprise Community known as the Scott-McCreary Area Revitalization Team (SMART) for the purpose of increasing economic development in these two counties. As a part of this effort, SMART-approved low interest rate loans were made available to eligible businesses from Enterprise Community Program funds, which were passed through to the County from the U.S. Department of Health and Human Services. In order to account for the loan repayments, McCreary County established the SMART Works Fund. In 1998, the County was also awarded Rural Business Enterprise Grants (RBEG) for SMART-approved low interest low interest rate loans to eligible businesses, which were passed through U.S. Department of Agriculture. The county combined the RBEG and SMART Works accounts during calendar year 2011. The county may use the loan repayments of the SMART Works Fund and the RBEG Revolving Loan Fund in accordance with each federal program's guidelines. The balances of receivables due as of June 30, 2011 for each fund are as follows:

SMART Works Fund:

Archery Unlimited	\$ 418	5	7.25%	\$ 20,120
Farmhouse Primitives	301	7	6.00%	14,401
Marcum's Pressure Washing	418	5	7.25%	20,709
Bethel Mower Repair	156	3	7.50%	3,456
Jack Winchester	156	3	7.50%	4,118
Café Machiato	387	10	3.00%	39,443
Tammie's Allstar Cuts	552	10	5.00%	13,472
Phil's Auto Repair	730	10	6.00%	72,538
Greater Air Systems	1,195	15	5.00%	125,542
McCreary County Voice	750	7	1.25%	47,093
King's Tire & Recycling	638	7	2.00%	35,834
Stephens Garage	305	15	1.25%	48,480
Total SMART Works Fund				<u>445,206</u>

RBEG - Revolving Loan Fund:

Little Lamb's Child Care Center	227	10	6.50%	9,880
McCreary County Heritage Foundation	1,591	10	5.00%	48,272
Moonlight Ridge Properties	1,450	6	6.00%	57,598
Thoroughbred Express	364	15	3.75%	49,793
Stearns Restaurant	435	10	3.00%	44,356
Total RBEG Revolving Loan Fund				<u>209,899</u>

Total Receivables	<u><u>\$ 655,105</u></u>
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MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
Primary Government:	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Construction In Progress	\$ 1,903,155	\$	\$ (476,441)	\$ 1,426,714
Land and Land Improvements	746,369			746,369
Total Capital Assets Not Being Depreciated	2,649,524		(476,441)	2,173,083
Capital Assets, Being Depreciated:				
Buildings	7,269,901	1,493,626		8,763,527
Other Equipment	1,166,384	180,716		1,347,100
Vehicles and Equipment	669,065	22,081		691,146
Infrastructure	2,607,860	716,375		3,324,235
Total Capital Assets Being Depreciated	11,713,210	2,412,798		14,126,008
Less Accumulated Depreciation For:				
Buildings	(1,404,242)	(138,838)		(1,543,080)
Other Equipment	(621,829)	(85,382)		(707,211)
Vehicles and Equipment	(180,154)	(87,459)		(267,613)
Infrastructure	(370,924)	(99,854)		(470,778)
Total Accumulated Depreciation	(2,577,149)	(411,533)		(2,988,682)
Total Capital Assets, Being Depreciated, Net	9,136,061	2,001,265		11,137,326
Governmental Activities Capital Assets, Net	\$ 11,785,585	\$ 2,001,265	\$ (476,441)	\$ 13,310,409

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 96,424
Protection to Persons and Property	87,445
General Health and Sanitation	3,222
Recreation and Culture	36,648
Roads, Including Depreciation of General Infrastructure Assets	<u>187,794</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 411,533</u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Capital Assets (Continued)

Capital asset activity for the discretely presented component units for the year ended June 30, 2011 was as follows:

	McCreary County Airport Board			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Construction In Progress	\$ 67,431	\$ 21,402	\$	\$ 88,833
Land	91,000			91,000
Total Capital Assets Not Being Depreciated	158,431	21,402		179,833
Capital Assets, Being Depreciated:				
Buildings	215,878			215,878
Other Equipment	90,576			90,576
Land Improvements	340,720			340,720
Total Capital Assets Being Depreciated	647,174			647,174
Less Accumulated Depreciation For:				
Buildings	(16,903)	(1,958)		(18,861)
Other Equipment	(30,231)	(5,038)		(35,269)
Land Improvements	(29,743)	(8,057)		(37,800)
Total Accumulated Depreciation	(76,877)	(15,053)		(91,930)
Total Capital Assets, Being Depreciated, Net	570,297	(15,053)		555,244
Government Activities Capital Assets, Net	<u>\$ 728,728</u>	<u>\$ 6,349</u>	<u>\$</u>	<u>\$ 735,077</u>

Depreciation expense was charged to functions of the discretely presented component units as follows:

<u>Discretely Presented Component Units</u>	
McCreary County Airport Board	<u>\$ 15,053</u>
Total Depreciation Expense - Discretely Presented Component Units	<u><u>\$ 15,053</u></u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 6. Long-Term Debt

A. First Mortgage Revenue Bonds (Court Facilities Project), Series 1999A and Series 2009

On November 1, 1999, the McCreary County Courthouse and Public Square Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center, which is attached to the courthouse and obtaining rental space for the AOC at the Justice Center. In November of 1999, the McCreary County Courthouse and Public Square Corporation issued First Mortgage Revenue Bonds in the amount of \$5,205,000 in order to construct the McCreary County Justice Center.

The McCreary County Courthouse and Public Square Corporation designated the County to act as its agent in order to plan, design, construct, manage, and maintain the Justice Center. The McCreary County Courthouse and Public Square Corporation expects annual rentals from the AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under terms of the lease, the AOC has agreed to pay directly to the paying agent bank the use allowances payments as provided in the lease. The lease agreement is renewable each year. The McCreary County Courthouse and Public Square Corporation is dependent upon the use of allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Justice Center by the AOC. The AOC with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2020, but the lease does not legally obligate the AOC to do so.

In July 2009, the McCreary County Fiscal Court retired the 1999A and 2001B series bonds by the issuance of Series 2009 bonds in the amount of \$3,515,000. This refunding resulted in an average interest rate reduction of 1.77 percent and estimated present value savings amount of \$150,915.

The debt service requirements for the 2009 First Mortgage Revenue Bonds are presented as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 330,000	\$ 87,656
2013	340,000	80,955
2014	345,000	74,105
2015	350,000	66,455
2016	365,000	57,328
2017-2021	1,620,000	117,235
2022	25,000	475
Totals	<u>\$ 3,375,000</u>	<u>\$ 484,209</u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 6. Long-Term Debt (Continued)

B. Long Term Lease Participation Agreement

The Kentucky Local Correctional Facilities Authority (KLCFA), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds for the purpose of construction and reconstruction of jail facilities. On October 15, 1984 McCreary County entered into a lease participation agreement and financial plan for jail construction costs with KLCFA, which was subsequently amended February 15, 1987, agreeing to pay KLCFA lease payments equal to \$316,534 principals plus a proportional share of interest on the KLCFA's Multi-County Correctional Refunding and Improvement Bonds, 1987 Series. On February 1, 1994, KLCFA issued its Multi-County Correctional Facilities Refunding Bonds, 1994 Series refunding the 1987 Series.

On October 13, 2004, KLCFA issued its Multi-County Correctional Facilities Revenue Refunding Bonds, Series 2004, refunding the 1994 Series. As of October 13, 2004, McCreary County's outstanding principal balance on its lease participation agreement with KLCFA for the County's share of the 1994 Series was \$182,172. McCreary County's proportionate share of the October 13, 2004 refunding resulted in an additional principal reduction of \$18,907 and interest savings of \$7,852.

The second amended lease participation agreement dated October 1, 2004 between KLCFA and McCreary County requires an annual principal payment to be made by October 1 and semi-annual interest payments to be made on October 1 and April 1. Interest rates range from 6.92% to 6.94%. As of June 30, 2011, the principal balance on the agreement for McCreary County's share of KLCFA's 2004 Series was \$78,609. Lease participation payments for the remaining years are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 17,722	\$ 4,840
2013	18,950	3,568
2014	20,265	2,207
2015	21,672	752
Totals	<u>\$ 78,609</u>	<u>\$ 11,367</u>

C. Two Mack Trucks

On December 8, 2008, the McCreary County Fiscal Court entered into a 5-year financing obligation with KACo Leasing Trust for the purchase of two Mack Trucks. The principal payments are due annually by December 20th beginning in 2010 and are to be paid in full on December 20, 2013; interest payments are due monthly starting in January 2009. The principal balance as of June 30, 2011 is \$161,184. Future principal and interest requirements are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 50,000	\$ 5,357
2013	55,000	3,394
2014	56,184	1,187
Totals	<u>\$ 161,184</u>	<u>\$ 9,938</u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 6. Long-Term Debt (Continued)

D. 911 Equipment

On May 29, 1998, the McCreary County Fiscal Court entered into a 7-year financing obligation with KACo Leasing Trust for the purchase of 911 equipment in the amount of \$300,000. McCreary County Fiscal Court refinanced the remaining balance of \$140,000 on the financing obligation June 13, 2002 for a ten-year period. The principal balance as of June 30, 2011 is \$16,600. Future principal and interest requirements are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 16,600	\$ 500
Totals	<u>\$ 16,600</u>	<u>\$ 500</u>

E. Advanced Life Saving Equipment

On April 30, 2002, the McCreary County Fiscal Court entered into a 10-year financing obligation for \$85,979 with KACo Leasing Trust for the purchase of advanced life saving equipment and to make the required principal payment on the original financing obligation that was refinanced in Item D above. Principal payments are due annually on January 20th and interest payments are due monthly. The financing obligation is scheduled to be paid off in January 2012. The principal balance as of June 30, 2011 is \$10,604. Future principal and interest requirements are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 10,604	\$ 300
Totals	<u>\$ 10,604</u>	<u>\$ 300</u>

F. Asphalt Truck

On July 21, 2008, the McCreary County Fiscal Court entered into a 10-year financing obligation with KACo Leasing Trust for the purchase of an asphalt truck. Principal and interest payments are due monthly by the 20th day of the month. The principal balance as of June 30, 2011 is \$86,668. Future principal and interest requirements are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 10,018	\$ 3,208
2013	11,355	3,078
2014	11,818	2,620
2015	12,301	2,143
2016	12,802	1,647
2017-2019	<u>28,374</u>	<u>1,748</u>
Totals	<u>\$ 86,668</u>	<u>\$ 14,444</u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 6. Long-Term Debt (Continued)

G. Courthouse Renovations

On September 27, 2001, the McCreary County Fiscal Court entered into a 20-year financing obligation with Kentucky Area Development District (KADD) for the renovation of the courthouse. The principal payments are due annually by September 20th and mature in September 2021. Interest payments are due every six months starting in March 2002. The principal balance as of June 30, 2011 is \$250,000. Future principal and interest requirements are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 15,000	\$ 14,660
2013	20,000	13,685
2014	20,000	12,585
2015	20,000	11,460
2016	20,000	10,310
2017-2021	125,000	28,965
2022	30,000	1,090
Totals	<u>\$ 250,000</u>	<u>\$ 92,755</u>

H. Ambulance

On September 12, 2006, the McCreary County Fiscal Court entered into a 5-year financing obligation with KACo Leasing Trust for the purchase of an ambulance for the total price of \$74,253. Principal and interest payments are due monthly by the 20th. The principal balance as of June 30, 2011 is \$5,571. Future principal and interest requirements are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest & Fees</u>
2012	\$ 5,571	\$ 48
Totals	<u>\$ 5,571</u>	<u>\$ 48</u>

I. Ambulances

On January 25, 2010, the McCreary County Fiscal Court entered into a 5-year financing obligation with KACo Leasing Trust for the purchase of (2) ambulances at the total price of \$209,658. Interest payments at 4.355% are due monthly by the 20th, with annual principal payments of \$40,000 due each January. The principal balance as of June 30, 2011 is \$169,658. Future principal and interest requirements are as follows:

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 6. Long-Term Debt (Continued)

I. Ambulances (Continued)

Fiscal Year Ended June 30	Principal	Interest
2012	\$ 40,000	\$ 6,539
2013	40,000	4,901
2014	45,000	3,180
2015	44,658	1,232
Totals	<u>\$ 169,658</u>	<u>\$ 15,852</u>

J. Economic Development Loan

In September 2009, McCreary County Fiscal Court obtained a Rural Economic Development Finance Agreement for the construction of a multi-generational use building. The total amount financed was \$500,000 over a 10 year period. The agreement requires an annual service fee of \$4,458 with a zero rate of interest and payments of \$4,167 due the 1st of each month. The principal balance as of June 30, 2011 is \$408,333. Future principal and service fee requirements are as follows:

Fiscal Year Ended June 30	Principal	Interest
2012	\$ 45,833	\$ 3,958
2013	50,000	3,458
2014	50,000	2,958
2015	50,000	2,458
2016	50,000	1,958
2017-2020	162,500	1,958
Totals	<u>\$ 408,333</u>	<u>\$ 16,748</u>

K. Stearns Improvements

On March 27, 2006, the Stearns Historical Area Development Authority (SHADA), a discretely presented component unit of McCreary County, entered into a 10 year loan agreement with the Bank of McCreary County to refinance the original loan that funded the interior improvements to the Stearns Restaurant and operating activities. SHADA leased the property to the McCreary County Heritage Foundation (not-for-profit organization), which operates the property as a historic attraction. The terms of the lease agreement equaled to the required monthly payments due on the loan. During the first half of fiscal year 2011, SHADA paid principal of \$2,576 leaving a principal balance of \$29,671 when SHADA was dissolved on December 14, 2010. McCreary County Heritage Foundation paid off this balance on behalf of SHADA in December 2010.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 6. Long-Term Debt (Continued)

L. Purchase and Restoration of Downtown Stearns

On February 3, 2004, the Stearns Historical Area Development Authority (SHADA), a discretely presented component unit of McCreary County, refinanced a previous loan balance of \$279,695 with Bank of McCreary County. The purpose of the original loan was to finance the renovation costs of several facilities in Stearns, Kentucky. The interest rate for the new loan is 4.84% and terms of the new loan agreement call for 180 monthly payments of \$2,186 beginning February 25, 2004. SHADA leased the property to the McCreary County Heritage Foundation (not-for-profit organization), which operates the property as a historic attraction. The terms of the lease agreement equaled to the required monthly payments due on the loan. During the first half of fiscal year 2011, SHADA paid principal of \$8,851 leaving a principal balance of \$176,720 when SHADA was dissolved on December 14, 2010. McCreary County Heritage Foundation paid off this balance on behalf of SHADA in December 2010.

M. Changes In Long Term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 3,515,000	\$	\$ 140,000	\$ 3,375,000	\$ 330,000
Lease	458,333		50,000	408,333	45,833
Financing Obligations	949,089		170,195	778,894	165,515
Governmental Activities					
Long-term Liabilities	<u>\$ 4,922,422</u>	<u>\$ 0</u>	<u>\$ 360,195</u>	<u>\$ 4,562,227</u>	<u>\$ 541,348</u>
Discretely Presented					
Component Units					
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 217,818</u>	<u>\$</u>	<u>\$ 217,818</u>	<u>\$</u>	<u>\$</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 217,818</u>	<u>\$ 0</u>	<u>\$ 217,818</u>	<u>\$ 0</u>	<u>\$ 0</u>

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Employee Retirement System (Continued)

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent.

The county's contribution for FY 2009 was \$256,624, FY 2010 was \$314,361, and FY 2011 was \$340,244.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Insurance

For the fiscal year ended June 30, 2011, McCreary County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 9. Related Party Transactions

During the fiscal year ended June 30, 2011, the McCreary County Fiscal Court paid A-1 Construction & Septic \$6,043 for repairs made to the jail. One of the McCreary County Fiscal Court's magistrates is the owner of this business. Because of the nature of the relationship between the business and the employee, these transactions are considered related party transactions.

Note 10. Change In Accounting Principle

The McCreary County Fiscal Court implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which has altered the classifications of Fund Balance on the Balance Sheet – Governmental Funds and the presentation of funds. The Jail Fund, Local Government Economic Assistance Fund, Local Government Economic Development Fund, Economic Development Fund, Disaster Assistance Fund, and the Rural Business Enterprise Grants – Revolving Loan Fund previously presented no longer meet the definition of a special revenue fund and have now been combined with the General Fund. The implementation did not cause a restatement of total beginning fund balance or beginning net assets.

Note 11. Prior Period Adjustments

A. Net Assets

	Governmental Activities	Business-type Activities	Discretely Presented Component Units
Beginning Balance - Net Assets	\$ 9,322,822	\$	\$ 946,859
Adjustments:			
Rounding Liabilities	(1)		
Capital Assets Previously Not Included by Error	135,565		
Correction to Accumulated Depreciation	676,129		
Discretely Presented Component			
Units Blended In Prior Year -			
McCreary County Airport Board-			
Fund Balance	(50,362)		50,362
Capital Assets, Net Accumulated Depreciation	(728,728)		728,728
McCreary County Tourist Commission-			
Fund Balance	(9,840)		9,840
Reverse Prior Year Adjustment To Cash -			
General Fund	35,437		
Prior Year Checks Voided - Road Fund	560		
Financial Data Omitted From Prior Year			
For Jail Commissary Fund		24,152	
Total Restated Beginning Balance - Net Assets	<u>\$ 9,381,582</u>	<u>\$ 24,152</u>	<u>\$ 1,735,789</u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 12. Prior Period Adjustments (Continued)

B. Fund Balance

	Governmental Funds	Proprietary Fund	Discretely Presented Component Units
Fund Balance - Beginning	\$ 2,143,236	\$	\$ 2,896
Adjustments:			
Discretely Presented Component			
Units Blended In Prior Year -			
McCreary County Airport Board	(50,362)		50,362
McCreary County Tourist Commission	(9,840)		9,840
Reverse Prior Year Adjustment To Cash -			
General Fund	35,437		
Prior Year Checks Voided - Road Fund	560		
Financial Data Omitted From Prior Year			
For Jail Commissary Fund		24,152	
Fund Balance - Beginning (Restated)	<u>\$ 2,119,031</u>	<u>\$ 24,152</u>	<u>\$ 63,098</u>

MCCREARY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

MCCREARY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

	Emergency 911 Dispatch Fund	SMART Works Fund	109 Grant Fund	Multi- Generational Center Fund	Solid Waste Board
ASSETS					
Cash and Cash Equivalents	\$ 36,018	\$ 83,540	\$ 29,771	\$ 25,000	\$ 5,066
Total Assets	<u>36,018</u>	<u>83,540</u>	<u>29,771</u>	<u>25,000</u>	<u>5,066</u>
FUND BALANCES					
Restricted:					
Economic Development		83,540			
General Health and Sanitation			29,771		
Recreation and Culture				25,000	
Assigned:					
Protection to Persons and Property	36,018				
General Health and Sanitation					5,066
Total Fund Balances	<u>\$ 36,018</u>	<u>\$ 83,540</u>	<u>\$ 29,771</u>	<u>\$ 25,000</u>	<u>\$ 5,066</u>

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
COMBINING BALANCE SHEET –
NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2011
(Continued)

Total
Non-Major
Governmental
Funds

\$ 179,395

83,540

29,771

25,000

36,018

5,066

\$ 179,395

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2011

MCCREARY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

	Emergency 911 Dispatch Fund	SMART Works Fund	109 Grant Fund	Multi- Generational Center Fund
REVENUES				
Taxes	\$ 173,835	\$	\$	\$
Intergovernmental			37,897	468,424
Miscellaneous	2,279	25,037		
Interest	19	8,026		
Total Revenues	<u>176,133</u>	<u>33,063</u>	<u>37,897</u>	<u>468,424</u>
EXPENDITURES				
General Government		50,000		
Protection to Persons and Property	215,768			
General Health and Sanitation			8,126	
Debt Service:				
Principal	26,099			
Interest	2,180			
Capital Projects				443,425
Administration	62,807			
Total Expenditures	<u>306,854</u>	<u>50,000</u>	<u>8,126</u>	<u>443,425</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(130,721)</u>	<u>(16,937)</u>	<u>29,771</u>	<u>24,999</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	137,248	43,283		
Total Other Financing Sources (Uses)	<u>137,248</u>	<u>43,283</u>		
Net Change in Fund Balances	6,527	26,346	29,771	24,999
Fund Balances - Beginning	29,491	57,194		1
Fund Balances - Ending	<u>\$ 36,018</u>	<u>\$ 83,540</u>	<u>\$ 29,771</u>	<u>\$ 25,000</u>

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2011
(Continued)

McCreary County Courthouse and Public Square Corporation Fund	Solid Waste Board	Total Non-Major Governmental Funds
\$	\$	\$
233,655		173,835
	4	739,976
		27,320
		8,045
<u>233,655</u>	<u>4</u>	<u>949,176</u>
		50,000
		215,768
	22,736	30,862
140,000		166,099
91,655		93,835
		443,425
2,000		64,807
<u>233,655</u>	<u>22,736</u>	<u>1,064,796</u>
	(22,732)	(115,620)
		180,531
		180,531
	(22,732)	64,911
	27,798	114,484
<u>\$ 0</u>	<u>\$ 5,066</u>	<u>\$ 179,395</u>

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
BALANCE SHEET - COMPONENT UNITS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

MCCREARY COUNTY
BALANCE SHEET – COMPONENT UNITS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

	McCreary County Airport Board	McCreary County Tourist Commission	Total Component Units
ASSETS			
Cash and Cash Equivalents	\$ 47,968	\$ 9,994	\$ 57,962
Total Assets	<u>47,968</u>	<u>9,994</u>	<u>57,962</u>
FUND BALANCES			
Assigned:			
Recreation and Culture		9,994	9,994
Airports	<u>47,968</u>		<u>47,968</u>
Total Fund Balances	<u>\$ 47,968</u>	<u>\$ 9,994</u>	<u>\$ 57,962</u>

**Reconciliation of the Balance Sheet - Component Units
to the Statement of Net Assets - Component Units:**

Total Fund Balances	\$ 57,962
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	827,007
Accumulated Depreciation	<u>(91,930)</u>
Net Assets Of Component Units - Governmental Activities	<u>\$ 793,039</u>

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – COMPONENT UNITS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

MCCREARY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – COMPONENT UNITS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

	McCreary County Airport Board	Stearns Historical Area Development Authority	McCreary County Tourist Commission	Total Component Units
REVENUES				
Taxes	\$	\$	\$ 19,342	\$ 19,342
Intergovernmental	23,707	13,409	36,101	73,217
Charges for Services	720			720
Miscellaneous	1,775		617	2,392
Interest	471		2	473
Total Revenues	<u>26,673</u>	<u>13,409</u>	<u>56,062</u>	<u>96,144</u>
EXPENDITURES				
Recreation and Culture			55,908	55,908
Airports	7,665			7,665
Debt Service		16,305		16,305
Capital Projects	21,402			21,402
Total Expenditures	<u>29,067</u>	<u>16,305</u>	<u>55,908</u>	<u>101,280</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(2,394)</u>	<u>(2,896)</u>	<u>154</u>	<u>(5,136)</u>
Net Change in Fund Balances	(2,394)	(2,896)	154	(5,136)
Fund Balances - Beginning (Restated)	50,362	2,896	9,840	63,098
Fund Balances - Ending	<u>\$ 47,968</u>	<u>\$ 0</u>	<u>\$ 9,994</u>	<u>\$ 57,962</u>

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
COMPONENT UNITS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

MCCREARY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
COMPONENT UNITS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

Net Change in Fund Balances - Total Component Units	\$ (5,136)
Rounding Adjustment	
Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	21,402
Depreciation Expense	(15,053)
Assets donated to McCreary County Heritage Foundation, net book value	(1,161,781)
The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.	
Financing Obligations	11,427
Financing Obligations Paid Off By McCreary County Heritage Foundation	<u>206,391</u>
Change in Net Assets of Component Units - Governmental Activities	<u><u>\$ (942,750)</u></u>

The accompanying notes are an integral part of the financial statements.

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MCCREARY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2011

MCCREARY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2011

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through Kentucky Department For Local Government: Community Development Block Grant (CFDA #14.228) *	08-015	\$ 443,425
<u>U.S. Department of Transportation</u>		
Passed-Through Federal Aviation Administration: Airport Improvement Program (CFDA #20.106)	3-21-0081-08-2010	21,339
Passed-Through Kentucky Department for Local Government: Kentucky Recreational Trails Program Project (CFDA #20.219)	370-09	6,050
Total U.S. Department of Transportation		<u>27,389</u>
<u>U.S. Department of Agriculture</u>		
Passed-Through Kentucky Department for Local Government: Secure Rural School Program Title III (CFDA #10.N/A)	Unavailable	41,433
<u>U. S. Election Assistance Commission</u>		
Passed-Through Kentucky State Board of Elections: Help America Vote Act - Voting Machines (CFDA #90.401)	FY2011MOA	81,000
<u>U.S. Department of Homeland Security</u>		
Passed-Through Kentucky Department of Military Affairs: Emergency Management Coordinator Salary (CFDA #97.042)	Unavailable	11,829
<u>Appalachian Regional Commission</u>		
Passed-Through The Center for Rural Development: Community Development Strategic Grant (CFDA #23.011)	Unavailable	10,000

MCCREARY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2011
(Continued)

Federal Grantor	Pass-Through	
Program Title	Grantor's Number	Expenditures
<u>Grant Name (CFDA #)</u>		
<u>National Oceanic and Atmospheric Administration</u>		
Passed-Through The Center for Rural Development:		
Pride Clean up		
(CFDA #11.469)	SC11-63/SC10-63	\$ <u>7,127</u>
Total Expenditures of Federal Awards		\$ <u><u>622,203</u></u>

* - Tested as a major program.

MCCREARY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2011

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of McCreary County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - Determination of Major Program

The Type A program for the fiscal court is any program for which total expenditures of federal awards exceed \$300,000 for fiscal year 2011 or were deemed high risk. The Type A program was:

- CFDA #14.228 Community Development Block Grant

Note 3 - Subrecipients

There were no subrecipients for fiscal year 2011.

Note 4 - Noncash Expenditures

There were no noncash expenditures of federal awards for fiscal year 2011.

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MCCREARY COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis

For The Year Ended June 30, 2011

MCCREARY COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis

For The Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 618,500	\$ 618,500	\$ 574,750	\$ (43,750)
In Lieu Tax Payments	233,200	233,200	152,684	(80,516)
Excess Fees	40,000	45,000	24,334	(20,666)
Licenses and Permits	95,300	95,300	89,758	(5,542)
Intergovernmental Revenue	488,868	585,368	208,793	(376,575)
Charges for Services	875,000	875,000	882,652	7,652
Miscellaneous	125,000	177,000	173,271	(3,729)
Interest	2,000	2,000	738	(1,262)
Total Revenues	<u>2,477,868</u>	<u>2,631,368</u>	<u>2,106,980</u>	<u>(524,388)</u>
EXPENDITURES				
General Government	605,261	829,433	787,181	42,252
Protection to Persons and Property	1,578,412	1,800,711	1,344,703	456,008
General Health and Sanitation	127,591	145,676	111,707	33,969
Recreation and Culture	63,493	75,993	48,315	27,678
Debt Service	33,549	33,549	30,485	3,064
Capital Projects	106,000	107,500		107,500
Administration	519,328	573,042	562,643	10,399
Total Expenditures	<u>3,033,634</u>	<u>3,565,904</u>	<u>2,885,034</u>	<u>680,870</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(555,766)</u>	<u>(934,536)</u>	<u>(778,054)</u>	<u>156,482</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	530,166	530,166	715,990	185,824
Transfers To Other Funds	<u>(375,000)</u>	<u>(375,000)</u>	<u>(556,064)</u>	<u>(181,064)</u>
Total Other Financing Sources (Uses)	<u>155,166</u>	<u>155,166</u>	<u>159,926</u>	<u>4,760</u>
Net Changes in Fund Balance	(400,600)	(779,370)	(618,128)	161,242
Fund Balance - Beginning	<u>400,000</u>	<u>936,270</u>	<u>936,270</u>	
Fund Balance - Ending	<u>\$ (600)</u>	<u>\$ 156,900</u>	<u>\$ 318,142</u>	<u>\$ 161,242</u>

MCCREARY COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 50,000	\$ 567,397	\$ 567,397	\$
Intergovernmental Revenues	1,523,965	1,721,995	1,570,694	(151,301)
Charges For Services		12,000	11,987	(13)
Miscellaneous	50,000	62,500	113,534	51,034
Interest	1,500	1,500	785	(715)
Total Revenues	<u>1,625,465</u>	<u>2,365,392</u>	<u>2,264,397</u>	<u>(100,995)</u>
EXPENDITURES				
Transportation Facilities And Services	90,000	297,000	296,428	572
Roads	1,152,405	1,117,634	1,014,770	102,864
Debt Service	14,423	15,699	15,625	74
Administration	416,471	947,399	533,149	414,250
Total Expenditures	<u>1,673,299</u>	<u>2,377,732</u>	<u>1,859,972</u>	<u>517,760</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(47,834)</u>	<u>(12,340)</u>	<u>404,425</u>	<u>416,765</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(152,166)</u>	<u>(152,166)</u>	<u>(241,743)</u>	<u>(89,577)</u>
Total Other Financing Sources (Uses)	<u>(152,166)</u>	<u>(152,166)</u>	<u>(241,743)</u>	<u>(89,577)</u>
Net Changes in Fund Balance	(200,000)	(164,506)	162,682	327,188
Fund Balance - Beginning	<u>200,000</u>	<u>106,506</u>	<u>107,066</u>	<u>560</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (58,000)</u>	<u>\$ 269,748</u>	<u>\$ 327,748</u>

MCCREARY COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 900,000	\$ 900,000	\$ 1,086,100	\$ 186,100
Interest	1,000	1,000	385	(615)
Total Revenues	901,000	901,000	1,086,485	185,485
EXPENDITURES				
General Government	180,000	180,000	118,422	61,578
Recreation and Culture	207,000	207,000	30,749	176,251
Administration	51,000	35,846		35,846
Total Expenditures	438,000	422,846	149,171	273,675
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	463,000	478,154	937,314	459,160
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(513,000)	(513,000)	(919,548)	(406,548)
Total Other Financing Sources (Uses)	(513,000)	(513,000)	(919,548)	(406,548)
Net Changes in Fund Balances	(50,000)	(34,846)	17,766	52,612
Fund Balances - Beginning	50,000	34,846	34,846	
Fund Balances - Ending	\$ 0	\$ 0	\$ 52,612	\$ 52,612

MCCREARY COUNTY
NOTES TO OTHER INFORMATION

June 30, 2011

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation of the General Fund

Total Revenues - Budgetary Basis	\$ 2,106,980
To adjust for Jail Fund Revenues	277,205
To adjust for LGEA Fund Revenues	91,916
To adjust for Local Government Economic Development Fund Revenues	2,256
To adjust for Economic Development Fund Revenues	257,719
To adjust for Disaster Assistance Fund Revenues	33
To adjust for RBEG-RLF Fund Revenues	<u>17,501</u>
Total Revenues - Modified Cash Basis	<u><u>\$ 2,753,610</u></u>
Total Expenditures - Budgetary Basis	\$ 2,885,034
To adjust for Jail Fund Expenditures	853,259
To adjust for LGEA Fund Expenditures	111,509
To adjust for Local Government Economic Development Fund Expenditures	17,321
To adjust for RBEG-RLF Fund Expenditures	<u>45,000</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 3,912,123</u></u>
Total Other Financing Sources and Uses - Budgetary Basis	\$ 159,926
To adjust for Jail Fund Transfers In	572,495
To adjust for Local Government Economic Development Fund Transfers In	65
To adjust for Economic Development Fund Transfers In	86,568
To adjust for RBEG-RLF Fund Transfers Out	<u>(43,284)</u>
Total Other Financing Sources and Uses - Modified Cash Basis	<u><u>\$ 775,770</u></u>

MCCREARY COUNTY
NOTES TO OTHER INFORMATION
June 30, 2011
(Continued)

Reconciliation of the General Fund (Continued)

Total Fund Balance - Beginning - Budgetary Basis	\$ 936,270
To adjust for Jail Fund Beginning Balance	15,809
To adjust for LGEA Fund Beginning Balance	233,845
To adjust for Local Government Economic Development Fund Beginning Balance	15,000
To adjust for Disaster Assistance Fund Beginning Balance	19,532
To adjust for RBEG-RLF Fund Beginning Balance	<u>70,783</u>
Total Fund Balance - Beginning - Modified Cash Basis	<u><u>\$ 1,291,239</u></u>
 Total Fund Balance - Ending - Budgetary Basis	 \$ 318,142
To adjust for Jail Fund Ending Balance	12,250
To adjust for LGEA Fund Ending Balance	214,252
To adjust for Economic Development Fund Ending Balance	344,287
To adjust for Disaster Assistance Fund Ending Balance	<u>19,565</u>
Total Fund Balance - Ending - Modified Cash Basis	<u><u>\$ 908,496</u></u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Douglas Stephens, McCreary County Judge/Executive
Members of the McCreary County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the aggregately discretely presented component units, each major governmental fund, and the aggregate remaining fund information of McCreary County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 27, 2012. McCreary County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial statements of McCreary County, Kentucky do not include the financial data of the McCreary County Industrial Authority, a discretely presented component unit of McCreary County, Kentucky. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

We were also engaged to audit the financial statements of the business-type activities and the Jail Canteen Fund, a major enterprise fund, of McCreary County, Kentucky, as of and for the year ended June 30, 2011. However, the scope of our work was not sufficient to enable us to express an opinion of the financial statements of the business-type activities and the Jail Canteen Fund, a major enterprise fund, of McCreary County, Kentucky.

Internal Control Over Financial Reporting

Management of McCreary County and its discretely presented component units is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered McCreary County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McCreary County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of McCreary County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-01, 2011-02, 2011-04, 2011-06, 2011-09, 2011-10, 2011-13, 2011-14, 2011-15, 2011-16, 2011-17, 2011-18, 2011-20, 2011-21, 2011-22, 2011-23, 2011-24, 2011-25, and 2011-26 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described as items 2011-05, 2011-07, 2011-08, 2011-11, and 2011-12 in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCreary County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2011-03, 2011-04, 2011-08, 2011-10, 2011-13, 2011-15, 2011-17, 2011-19, 2011-21, 2011-25, and 2011-26.

Management's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 27, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Douglas Stephens, McCreary County Judge/Executive
Members of the McCreary County Fiscal Court

Report On Compliance With Requirements That Could Have
A Direct And Material Effect On Each Major Program And On
Internal Control Over Compliance In Accordance With OMB Circular A-133

Independent Auditor's Report

Compliance

We have audited the compliance of McCreary County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. McCreary County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of McCreary County's management. Our responsibility is to express an opinion on McCreary County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McCreary County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on McCreary County's compliance with those requirements.

In our opinion, McCreary County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed one instance of a noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-26.

Internal Control Over Compliance

The management of McCreary County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered McCreary County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose expressing our opinion on compliance and to



Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of McCreary County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-26 to be a material weakness.

The McCreary County Judge/Executive's response to the finding identified in our audit is included in the schedule of findings and questioned costs. We did not audit the County Judge/Executive's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 27, 2012

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2011

**MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2011

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, each major governmental fund, and the aggregate remaining fund information of McCreary County. The scope of our work was not sufficient to enable us to express an opinion of the financial statements of the business-type activities and the Jail Canteen Fund, a major enterprise fund, of McCreary County. The auditor's report expresses an adverse opinion on the discretely presented component units of McCreary County because the financial data of the McCreary County Industrial Authority, a discretely presented component unit, has not been included in the financial statements.
2. Nineteen (19) material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's Report. Five (5) significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. Eleven (11) instances of noncompliance material to the financial statements of McCreary County were disclosed during the audit.
4. One material weakness relating to the audit of the major federal awards programs is reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for McCreary County expresses an unqualified opinion.
6. There is one finding relative to the major federal awards programs for McCreary County reported in Part C of this schedule.
7. The program tested as a major program was: U.S. Department of Housing and Urban Development, - Community Block Grant Program (CFDA #14.228).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. McCreary County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

FINANCIAL STATEMENT FINDINGS

2011-01 The County Treasurer Should Maintain Accurate Financial Records

The county treasurer's ledgers did not agree with amounts reflected on the 4th quarter financial report and the county treasurer did not prepare and submit an annual settlement to the fiscal court as required by Kentucky Revised Statutes. Also, the county treasurer is allowing cash transfers between funds without first seeking fiscal court approval. Additionally, significant duties of the County Treasurer are being handled by a non-county employee who is not adequately bonded nor properly authorized to perform such duties. Those duties include preparing quarterlies and bank reconciliations, which have been prepared incorrectly and have numerous errors.

The county treasurer is not performing her job functions pursuant to Kentucky Revised Statutes and is also delegating significant duties to a non-county employee. Twenty-seven (27) audit adjustments and reclassifications were made to the County Treasurer's ledgers. Reports submitted to fiscal court for evaluation on the county's financial stability and for use in establishing future budgets are incorrect. Additionally, decisions made by fiscal court will be based on incorrect data. Furthermore, assets are subject to misappropriation because a non-county employee is performing duties for which he is not adequately bonded. Kentucky Revised Statute (KRS) 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual list the duties of the County Treasurer based on KRSs 68.020, 68.300, 68.360(1), and 441.235. This manual requires the County Treasurer to maintain the financial records, to receive and disburse money, to invest funds, to prepare financial reports monthly, and to settle accounts within thirty (30) days after

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-01 The County Treasurer Should Maintain Accurate Financial Records (Continued)

the close of each fiscal year. In addition, the manual requires the County Treasurer to countersign all checks for payment of funds from the county treasury only if the payment is approved by the fiscal court, sufficient funds are available, and an adequate free balance is available in the properly budgeted appropriation account.

We recommend the county treasurer stop the practice of delegating her job functions to a non-county employee and instead maintain accurate ledgers and from those ledgers, prepare the quarterly financial reports. Bank reconciliations should be accurately prepared, reconciled to the ledgers, and any variances promptly researched and resolved. The county treasurer should also prepare and submit an annual settlement to the fiscal court for approval. We also recommend the fiscal court take steps to ensure the county treasurer carry out her responsibilities. We are referring the matter of the non-county employee performing duties of the county treasurer to the Kentucky Department for Local Government and the McCreary County Attorney for action as may be deemed necessary.

County Judge/Executive Douglas Stephen's Response: I will work to ensure that the Treasurer understands and works to follow through with the recommendations set forth in this audit report. Additionally, beginning July 1 our office will implement a new financial management system that will aid in management of our records and aid the Treasurer in the independent fulfillment of her duties, completion of reports, accuracy of reports as well as management of the county budget as it pertains to adequate allotment of line item disbursements.

2011-02 The Fiscal Court Should Maintain Accurate Capital Asset Records

During the performance of various audit procedures over capital assets, the auditors noted the asset listing was not accurately maintained and many of the fiscal court's fixed assets were not included on the listing.

Because the fiscal court is not providing adequate oversight in this area, numerous audit adjustments were made to the listing including adjustments to increase land and buildings by \$916,039, vehicles by \$36,861 and other equipment by \$106,237. By not maintaining an accurate list of capital assets, assets and the associated depreciation expense will be improperly stated, increasing the risk of material financial statement misstatement. In addition, the risk increases that capital assets may not be insured or that the County pays insurance for assets they no longer own.

Kentucky Revised Statute (KRS) 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual, capital asset records are necessary for proper valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. The manual further states that capital asset records should include a description of the asset, historical cost, date of acquisition, date of disposal, useful life of the asset, salvage value, depreciation expense, accumulated depreciation, and proceeds from sale or disposal of assets. In addition, the manual states that a capital asset record should be prepared for each acquisition.

We recommend the fiscal court appoint an employee in charge of maintaining fixed assets. The employee should maintain records throughout the year of any purchases and retirements of assets and provide periodic updates to the fiscal court. Purchases should include the date the asset was acquired,

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-02 The Fiscal Court Should Maintain Accurate Capital Asset Records (Continued)

a description of the asset, the vendor name, the amount, salvage value and useful life. Invoices for asset acquisition should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. We further recommend that as an asset is retired or disposed of, it be removed from the listing. The County should also improve procedures to ensure that all changes to the insurance for additions or deletions be completed timely and documentation should be maintained evidencing the requested changes to the insurance. If possible, an inventory county at June 30 of each fiscal year should be conducted. The fiscal court should provide the necessary oversight needed to perform this important function.

County Judge/Executive Douglas Stephen's Response: I will be asking each county department to provide an annual inventory update and request the staff within my office work continually to maintain the accuracy of the asset schedule. Following this review, our records will be updated and reviewed periodically to ensure compliance.

2011-03 The Fiscal Court Should Obtain And Award All Bids In Accordance With KRS 424.260 And The County's Administrative Code

The county did not properly advertise for bids as required by Kentucky Revised Statute (KRS) 424.260 and did not follow the administrative code which requires any purchases over \$20,000 be bid first. The item in question was a loader backhoe subsequently purchased for \$24,250. The loader backhoe was purchased without obtaining bids because of the fiscal court's lack of controls and oversight over purchasing. When the county does not obtain bids, the county runs the risk of not obtaining the best price for the item in question which ultimately can cost the citizens of the county. KRS 424.260 states "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except for perishable meat, fish and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000), without first making newspaper advertisement for bids."

Additionally, the county's administrative code requires that any purchase over twenty thousand dollars (\$20,000) be bid. We recommend the fiscal court comply with KRS 424.260 and the county's administrative code by advertising for, obtaining and properly awarding bids for all purchases over twenty thousand dollars (\$20,000).

County Judge/Executive Douglas Stephen's Response: We have worked to and are working to comply with all provisions of KRS 424.260 as it pertains to purchases over \$20,000. However, under this circumstance, an opportunity to purchase equipment locally through an auction, and well under market value, was afforded to the county with no clear provision to purchase this according to the procurement code. We will work to always follow the procurement code, but at times must also take into consideration savings to local taxpayers.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-04 The Fiscal Court Should Improve Purchase And Procurement Procedures

During our test of expenditures we noted numerous deficiencies in purchasing and procurement such as:

- one hundred twenty (120) invoices were not cancelled after payment was made
- thirty- nine (39) invoices were not paid within a 30 working day time period or had past due amounts
- ninety-two (92) instances where purchase orders were not issued
- thirteen (13) invoices used to make payments were not originals
- seven (7) bills were paid but not included on the claims list approved by the fiscal court
- one (1) payment for \$226,446 was made without haul tickets to support the purchase
- three (3) checks were not signed by the treasurer
- two (2) invoices were not approved by the fiscal court for payment
- two (2) bills could not be located
- twenty- three (23) haul tickets were missing
- three (3) invoices with no verification by road department that fuel was received
- one (1) invoice was paid twice with the same purchase order being attached to both payments

The above deficiencies in purchasing and procurement were allowed to occur because of the fiscal court's lack of controls and oversight over purchasing. The following can happen as a result of the above deficiencies:

- Purchasing items without properly obtaining purchase orders can result in committing resources that are unavailable.
- Failing to cancel invoices when payment is made can result in paying invoices twice.
- Failing to obtain fiscal court approval can result in purchasing items the fiscal court does not feel are necessary.
- Failing to maintain adequate documentation can result in paying invoices for services or supplies that were not provided to the county.
- Failing to pay bills within thirty (30) days can result in amounts not being recorded timely on the appropriations ledger and can also result in payment of finance charges and late fees.

Good internal controls dictate that adequate original supporting documentation be maintained for all disbursements. All original vendor invoices and receipts should be maintained including any supporting documentation, agreed to the corresponding purchases order, approved by the fiscal court prior to payment, and cancelled upon payment. Approval of payment should be documented in the minutes of the Fiscal Court's meetings. All purchases orders should be approved and issued before the work or service is performed. Kentucky Revised Statute (KRS) 65.140 also states "Unless the purchaser and vendor otherwise contract all bills for goods and services shall be paid within 30 working days of receipt of a vendor invoice."

We recommend the Fiscal Court maintain all original vendor invoices including any supporting documentation, issue purchase orders before work or service is performed, cancel all vendor invoices when paid, approve all invoices before payment is made, document this approval in the minutes of the Fiscal Court's meetings, and comply with KRS 65.140 by paying vendors within thirty (30) working days unless the

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-04 The Fiscal Court Should Improve Purchase And Procurement Procedures (Continued)

purchaser and vendor otherwise contract. In addition, we recommend all haul tickets be signed by a county employee, with one returned to the driver and the second turned into the finance officer to be matched to the vendors invoice before the invoice is paid. We further recommend that current purchases orders system in place be evaluated to ensure efficient and effective procedures are being used.

County Judge/Executive Douglas Stephen's Response: A standard purchase order system was instituted in January 2011 for all departments under control of the Fiscal Court that will absolve most of the occurrences detailed above. I have also strengthened the process of handling purchases, receipt of invoices and subsequent payment. In many instances, receipt of invoices does not coincide in a timely manner with monthly Fiscal Court meetings sometimes leading to difficulty in payment of all invoices on the 30 day schedule. However, we will continue to work to institute measures to correct the deficiencies within the purchasing system.

2011-05 The Fiscal Court Should Properly Reconcile The Payroll Revolving Account

The payroll revolving account did not reconcile to a zero balance as of June 30, 2011, and the remaining balance could not be readily explained. Auditor examination of the un-reconciled balance noted the following instances in the bank reconciliation process that prevented the payroll account from being reconciled accurately.

- Employer's Quarterly Federal Tax Returns (941 forms) reporting wages, federal income tax withholdings, social security tax withholdings and employer's share, and Medicare tax withholdings and employer's share to the Internal Revenue Service (IRS) were not being properly calculated.
- Penalties paid on 941 forms due underpayments to the IRS were not being deposited in the payroll account.
- The Sheriff, Tourist Commission, and Economic Development all reimbursed the payroll account for payroll expenses. These reimbursements were not always made in a timely manner.
- The County was paying the Sheriff's portion of payroll when his office did not have sufficient funds on hand with the intent the Sheriff would reimburse these funds. When payment was reimbursed by the Sheriff, these funds were erroneously deposited into the payroll account instead of the General Fund, which covered his office salary during these times.

The above deficiencies in reconciliation process were allowed to occur because of the fiscal court's lack of controls and oversight over reconciling of the payroll revolving account. The following can happen as a result of the above deficiencies:

- Employer's Quarterly Federal Tax Returns (941 forms) being incorrectly calculated can result in underpayments to the Internal Revenue Service which results in paying penalties and interest which is not beneficial to the public.
- Cash that can be used for other expenses is not utilized because it is erroneously transferred to the payroll account.
- Payroll account had a negative balance of \$13,156 in January 2011 providing opportunity for the county to have non-sufficient funds check in the payroll account.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2011-05 The Fiscal Court Should Properly Reconcile The Payroll Revolving Account (Continued)

The following can happen as a result of the above deficiencies: (Continued)

- As a result of the issue with the payroll services provided by the fiscal court to other entities, the payroll account has been over funded by \$51,261 resulting in that amount not being available to utilize for other expenses. This amount is included in the fund balance of the general fund in the financial statements.

Payroll revolving accounts are clearing accounts and should reconcile to a zero balance at the end of each month. As a result of the weaknesses noted above, reconciled ending balances were not accurate. We recommend internal controls over the payroll account bank reconciliations be strengthened to ensure ending reconciled bank balances are accurate. Bank reconciliations should then be reviewed by the County Judge/Executive to verify accuracy and completeness. We further recommend the amount of excess funds of \$51,261 in the payroll bank account be transferred to the bank account for the general fund.

County Judge/Executive Douglas Stephen's Response: Since this issue was brought to my attention, my office has worked with auditors and the county finance officer to develop measures to properly reconcile the payroll account and manage the account as recommended. We will begin that process in the coming weeks and will work to rectify other issues as addressed in this audit report.

2011-06 The Fiscal Court Should Improve Internal Control Procedures Over Receipts And Disbursements By Maintaining Accurate Records And By Segregating Duties Over All Accounting Functions

As a result of our audit, we noted a lack of segregation of duties exists over the following accounting functions: receipts, collection and processing, recording-keeping, disbursement processing, report preparation and reconciliations. No documented review or compensating controls exist over these areas. We noted the following during our review of internal controls:

- The County Treasurer prepares and deposits the receipts, posts to the ledger, and prepares reports from these ledgers for submission to the Department for Local Government (DLG), and performs the bank reconciliations
- The Occupational Tax Administrator receives and documents payments received for occupational taxes
- The Administrative Clerk prepares a listing of bills for Fiscal Court's approval
- The Finance Officer prints and mails the check
- The County Judge/Executive and County Treasurer sign the checks without comparing to the invoices to the checks
- Items returned from the bank are returned to the County Treasurer
- Deposits were not made in a timely manner
- Banks statements only contained the front of checks issued
- Items outstanding for a sufficient period of time were not followed upon
- Purchases orders were not always issued
- Ledgers are not being reconciled between the County Treasurer and the Finance Officer

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-06 The Fiscal Court Should Improve Internal Control Procedures Over Receipts And Disbursements By Maintaining Accurate Records And By Segregating Duties Over All Accounting Functions (Continued)

The lack of segregation of duties occurs because of the fiscal court has failed to segregate incompatible duties or implement oversight when duties cannot be segregated. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions. We recommend the fiscal court separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this oversight. We also recommend the following:

- County Treasurer and County Judge/Executive should compare checks to original invoices prior to signing the checks
- Deposits should be made in a timely manner
- Bank statements should contain both the front and backs of checks
- Outstanding items should be researched and resolved
- Purchase orders should be issued for all invoices
- Ledgers maintained by the county treasurer and finance officer should be reconciled monthly and this reconciliation documented

County Judge/Executive Douglas Stephen's Response: My office will work to provide better oversight regarding the issues addressed above including implementation of financial management software that should help with maintaining accurate records. Due to limited size of our office, segregation of duties is always difficult to achieve, but I will work to make sure all parts of the process have adequate oversight.

2011-07 The Fiscal Court Should Improve Internal Controls Over Payroll

As a result of our audit, we noted the fiscal court had weaknesses in internal controls over the payroll process. The below weaknesses in internal control over the payroll process were allowed to occur because of the fiscal court's lack of controls and oversight. During our review of internal controls over payroll, we noted the following weaknesses and results of those weaknesses:

- Wages paid to employees are not compared to the wages approved by the fiscal court. Wages for three (3) of the nineteen (19) employees tested did not agree with the amount approved by the fiscal court. Therefore, employees could be over or under paid.
- Timesheets are not reviewed to ensure all full time employees receive hours/pay for approved county holidays. The auditor noted one instance of a full time employee not receiving hours/pay for an approved county holiday.
- Allowances are not periodically reviewed to determine if employees are still eligible. One employee received a tool allowance which was included on the W-2 and proper withholding was made, however, auditor noted the tools were stolen in March 2011. The employee received an insurance payment for the loss of the tools. The county then purchased new tools with county funds; therefore, the employee should no longer receive a tool allowance.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-07 The Fiscal Court Should Improve Internal Controls Over Payroll (Continued)

During our review of internal controls over payroll, we noted the following weaknesses and results of those weaknesses: (Continued)

- Employee leave balances are not properly maintained so cannot be verified for accuracy. Employees could be paid for more leave than they actually earn.
- Payroll reports should be prepared correctly. Since 941s were underpaid, the county paid penalties totaling \$827. Penalties are not beneficial to the citizens.
- Payroll is being processed prior to the end of the pay period which could lead to over or under payment of the employees because employees estimate time that will be worked.
- The court house's hours of operations are 8:30 am to 4:00 pm, which do not allow for compliance with the county's policy of requiring full time employees to work a 40 hour work week.
- Average hours worked per fiscal year by part time employees is not monitored to determine if less than 100 hours is worked. Average hours worked per fiscal year should be monitored to determine eligibility for participating in the County Employees Retirement System. One (1) employee classified as part-time averaged 129 hours per month during fiscal year 2011, which resulted in failure to withhold and remit retirement for the employee.

Kentucky Revised Statute (KRS) 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual requires the County Judge/Executive to maintain time records. He may delegate this duty to the finance officer or an administrative assistant. Good internal controls dictate that as part of maintaining time records that salary schedules be maintained based on wages approved by fiscal court, timesheets should be signed by employees and their immediate supervisor, timesheets be reviewed for accuracy, allowances reviewed periodically for eligibility, leave balances properly maintained, and payroll reports should be reviewed for accuracy to determine that payments are properly made. In addition, KRS 78.510(21) states that employees who average one hundred (100) or more hours per month in a fiscal year are full time employees and should participate in the retirement system.

We recommend the county strengthen controls over the payroll process by:

- Approving an annual salary schedule that includes all employees and proper pay rates.
- Ensuring timecards/timesheets are prepared each pay period, accurately accounts for time worked, clock in/out times totals are accurate, submitted and signed by employees and approved by supervisors.
- Ensuring overtime is properly calculated based on an established work week in compliance with their administrative code.
- Records of sick and vacation time should be maintained by the payroll officer for all departments.
- Having County employees taking a lunch clock in/out and those employees who choose to waive their lunch period sign an annual agreement with the County.
- Processing payroll after the work week has ended in order to prevent any over or under payments.
- Reviewing their administrative code to ensure compliance with their code and inquiry of the County Attorney to ensure compliance with the federal and Kentucky state laws.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-07 The Fiscal Court Should Improve Internal Controls Over Payroll (Continued)

County Judge/Executive Douglas Stephen's Response: Over the last year our office has worked to ensure wages paid match the approved salary schedule. As required by law, all leave/benefit hours are monitored by the county finance officer and the county administrative code which has been thoroughly reviewed and updated to address issues noted above thus preventing reoccurrence. All departments are working to comply entirely with the administrative code and implementation process and the issues noted above corrected.

2011-08 The Fiscal Court Expended \$19,300 In Title III Funds For Improper Uses And Did Not Document The Use of An Additional \$22,133 In Title III Funds

During the fiscal year ended June 30, 2011, the McCreary County Fiscal Court received \$41,433 of Title III funds from the U.S. Department of Agriculture passed-through the Kentucky Department for Local Government under the Secure Rural Schools and Community Self-Determination Act (Public Law 110-343). These funds were initially deposited into the county's Road Fund and with fiscal court approval, subsequently transferred to the county's General Fund. During the fiscal year, the fiscal court transferred a total of \$86,000 from the General Fund to the Emergency 911 Dispatch Fund which included \$9,850 of Title III funds. On March 8, 2011, the fiscal court voted to expend Title III Funds to install a new roof on the Sheriff's office and to do maintenance on the 911 office building. Auditors were provided documentation showing that \$8,850 and \$9,850 of the Title III funds were expended from the General Fund and Emergency 911 Dispatch Fund, respectively, for these projects during the fiscal year ended June 30, 2011 and an additional \$600 was expended from the county's General Fund during the fiscal year ended June 30, 2012. The fiscal court did not maintain proper documentation for the remaining \$22,133 of Title III funds expended. Therefore, we question the expenditure of all Title III funds received during the fiscal year ended June 30, 2011.

The fiscal court's lack of controls and oversight over the expenditure of federal funds allowed federal funds to be expended for purposes not allowed for funds received under the Secure Rural Schools and Community Self-Determination Act. The fiscal court's lack of controls and oversight in this area also allowed federal funds to be expended without maintaining proper documentation.

Not following these guidelines or maintaining supporting documentation can result in expenditures not being an allowable cost of this program. Costs not allowable by the program can be questioned by auditors which can ultimately lead to the Kentucky Department for Local Government or the U.S. Department of Agriculture requiring the county to return the funds. Title III funds received under the Secure Rural Schools and Community Self-Determination Act may be used to:

1. carry out activities under the Firewise Communities Program to provide homeowners in fire sensitive ecosystems education and assistance with implementing techniques in home sitting, home construction, and home landscaping that can increase the protection of people and property from wildfires;
2. reimburse the participating county for search and rescue and other emergency services, including firefighting that are performed on Federal land after the date on which the use was approved and paid for by the participating county; and
3. develop community wildfire protection plans in coordination with the Secretary of Agriculture.

We recommend the county properly document the expenditure of all Title III funds received in the future and ensure that Title III funds are expended only for allowable program costs.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-08 The Fiscal Court Expended \$19,300 In Title III Funds For Improper Uses And Did Not Document
The Use of An Additional \$22,133 In Title III Funds (Continued)

County Judge/Executive Douglas Stephen's Response: The federal law regulating these expenditures does allow for reimbursement of funds expended to emergency services, which is how my office proceeded in this instance. Though proper documentation was not available to auditors for this time period, the appropriate documentation required by the federal government was completed. I can assure you that given our county is 70 percent federally managed, our emergency agencies serve at least four federal agencies, logic would lead one to reason that county expenditures on federal lands well exceed that allotted through the program. We have asked the Department for Local Government for guidance on this issue and are currently working with all county agencies to better document these expenditures as requested by auditing staff.

MCCREARY COUNTY PARK BOARD

2011-09 The McCreary County Park Board Should Improve Internal Control Procedures Over Receipts And
Disbursements By Maintaining All Required Records and By Segregating Duties Over All
Accounting Functions

The McCreary County Park Board, a blended component unit of the McCreary County Fiscal Court, lacks adequate segregation of duties over accounting functions. Although the park director collected the fees at the park and issued pre-numbered receipts, no daily cash checkout sheets or other reconciliations were prepared to agree receipts issued to the deposited amounts. The park director turned the funds collected over to the park treasurer. The park treasurer deposited the receipts, prepared and signed checks, and prepared monthly reports. In addition, no bank reconciliations or receipt and disbursement ledgers were prepared.

The lack of segregation of duties occurs because of the Park Board has failed to segregate incompatible duties or implement oversight when duties cannot be segregated. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

To adequately protect employees in the normal course of performing their assigned functions and to protect the Park Board against inaccurate financial reporting, we recommend funds received for park rental be issued on a three part receipt, the funds be accounted for on a daily checkout sheet with one receipt being attached to the daily check out sheet and turned over to the park treasurer intact with the funds. We also recommend funds be deposited weekly or when they exceed \$200. In addition, we recommend the Park Board separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. We further recommend the Park Board prepare a bank reconciliation, receipts and disbursement ledgers. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this. We also recommend the Park Board Treasurer request the bank to include both the front and backs of checks on the bank statements. In addition, we also recommend the Park Board prepare and submit a budget to McCreary County Fiscal Court.

Park Board's Response: No response.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-09 The McCreary County Park Board Should Improve Internal Control Procedures Over Receipts And Disbursements By Maintaining All Required Records and By Segregating Duties Over All Accounting Functions (Continued)

County Judge/Executive Douglas Stephen's Response: This county has worked with the Department for Local Government to bring the park board, as well as other boards established by the Fiscal court, and their finances under the direct control of the Fiscal Court alleviating the possibility of reoccurrence of these issues. Beginning July 1, 2012, the Fiscal Court will properly budget these funds, manage all purchases through the purchase order system, and report all financial transactions as required.

2011-10 The McCreary County Park Board Should Improve Purchase And Procurement Procedures

During our review of expenditures, we noted numerous deficiencies in purchase and procurement procedures of the McCreary County Park Board, a blended component unit of the McCreary County Fiscal Court. From our sample of tested expenditures, we noted the following deficiencies:

- eight (8) invoices were not canceled
- six (6) invoices were not paid in a timely manner
- one (1) invoice had missing receipts
- two (2) invoices were not originals
- the minutes of the Park Board do not reflect approval to pay the bills

The above deficiencies in purchasing and procurement were allowed to occur because of the Park Board's lack of controls and oversight over purchasing. The following can happen as a result of the above deficiencies:

- Failing to cancel invoices when payment is made can result in paying invoices twice.
- Failing to obtain Park Board approval can result in purchasing items the Park Board does not feel are necessary.
- Failing to maintain adequate documentation can result in paying invoices for services or supplies that were not provided to the park board.
- Failing to pay bills within thirty (30) days can result in amounts not being recorded timely on the expenditures ledger and can also result in payment of finance charges and late fees.

Good internal controls dictate that adequate original supporting documentation be maintained for all disbursements. All original vendor invoices and receipts should be maintained including any supporting documentation, approved by the Park Board prior to payment, and cancelled upon payment. Approval of payment should be documented in the minutes of the Park Board's meetings. Kentucky Revised Statute (KRS) 65.140 also states "Unless the purchaser and vendor otherwise contract all bills for goods and services shall be paid within 30 working days of receipt of a vendor invoice. We recommend the Park Board maintain all original vendor invoices including any supporting documentation, cancel all vendor invoices when paid, approve all invoices before payment is made, document this approval in the minutes of the Park Board's meetings and comply with KRS 65.140 by paying vendors within thirty (30) working days unless the purchaser and vendor otherwise contract.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-10 The McCreary County Park Board Should Improve Purchase And Procurement Procedures
(Continued)

Park Board's Response: No response.

County Judge/Executive Douglas Stephen's Response: Please see above. [See response to 2011-09]

2011-11 The Solid Waste Board Should Improve Internal Control Procedures Over Receipts And
 Disbursements By Maintaining All Required Records And By Segregating Duties Over All
Accounting Functions

We noted a lack of segregation of duties exists over the following accounting functions of the Solid Waste Board, a blended component unit of the McCreary County Fiscal Court: receipts, collection and processing, recording-keeping, disbursement processing, report preparation and reconciliations. No documented review or compensating controls exist over these areas. We noted the following during our review of internal controls:

- The former Deputy County Judge/Executive, who sat on the Solid Waste Board, prepared and deposited the receipts, performed the bank reconciliations as well as prepared and signed the checks.
- Checks were issued prior to the approval of the Solid Waste Board.
- Banks statements only contained the front of checks issued.
- Review of the reconciliations were not documented
- During the course of the year, no receipts or disbursement ledgers were maintained and financial reports were not maintained for the full year.
- The current Deputy County Judge/Executive reviews the bank statement; however, a reconciliation of the bank accounts is not performed or reviewed.

The lack of segregation of duties occurs because of the Solid Waste Board has failed to segregate incompatible duties or implement oversight when duties cannot be segregated. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

To adequately protect employees in the normal course of performing their assigned functions and to protect the Solid Waste Board against inaccurate financial reporting, we recommend the Solid Waste Board separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this. We also recommend the Solid Waste Board request the bank to include both the front and backs of checks on the bank statements.

Solid Waste Board's Response: All the above will be corrected as of July 1 when FC takes control of these accounts and financial management.

County Judge/Executive Douglas Stephen's Response: Please see above. [See response to 2011-09]

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-12 The Solid Waste Board Should Improve Purchase And Procurement Procedures

During our review of expenditures, we noted numerous deficiencies in purchase and procurement procedures of the Solid Waste Board, a blended component unit of the McCreary County Fiscal Court. From our sample of tested expenditures, we noted the following deficiencies:

- nine (9) invoices were not approved by the Solid Waste Board
- one (1) invoice was not properly canceled

The above deficiencies in purchasing and procurement were allowed to occur because of the Solid Waste Board's lack of controls and oversight over purchasing. The following can happen as a result of the above deficiencies:

- Failing to cancel invoices when payment is made can result in paying invoices twice.
- Failing to obtain Solid Waste Board approval can result in purchasing items the Solid Waste Board does not feel are necessary.

Good internal controls dictate that adequate original supporting documentation be maintained for all disbursements. All original vendor invoices and receipts should be maintained including any supporting documentation, approved by the Solid Waste Board prior to payment, and cancelled upon payment. Approval of payment should be documented in the minutes of the Solid Waste Board's meetings. We recommend the Solid Waste Board get board approval prior to paying invoices, document this approval in the minutes of the Solid Waste Board's meetings, and canceled all invoices upon payment.

Solid Waste Board's Response: Better oversight of payments will be instituted in the coming year as invoices are integrated into the county procurement system.

County Judge/Executive Douglas Stephen's Response: Please see above. [See response to 2011-09]

2011-13 The Jailer Should Maintain Accurate Records For The Jail Commissary Fund

The Jailer did not maintain adequate records to satisfy the guidelines for minimum accounting and reporting standards as prescribed by the State Local Finance Officer. The Jailer did not maintain a receipts ledger and disbursements ledger for the Jail Commissary Fund. In addition, bank reconciliations were not prepared for all months. Bank reconciliations prepared for the months of February 2011 through June 2011 were not prepared until October 2011. These bank reconciliations did not include outstanding checks or deposits in transit. They only reflected checks and deposits which cleared the bank during the month. The Jailer also only maintains one bank account for both the Jail Commissary Fund and Jail Inmate Fund without accounting for the activity of each fund separately. Since the funds are not accounted for separately, we could not accurately determine the total commissary sales for the Jail Commissary Fund. Additionally, the Jailer did not prepare an annual commissary report and submit the report to the county treasurer.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-13 The Jailer Should Maintain Accurate Records For The Jail Commissary Fund (Continued)

The Jailer is not performing his job functions relating to the Jail Commissary Fund pursuant to Kentucky Revised Statutes. In addition, the employees assigned to the jail commissary are not adequately trained to use the computerized accounting system properly. Reports such as the annual report to the county treasurer on the activity of the Jail Commissary Fund and Jail Inmate Fund cannot be prepared without ledgers and a proper understanding of the computerized accounting system. In addition, inaccurate bank reconciliations result in the incorrect book balance being reported. Decisions on purchasing items for the jail inmates cannot be properly made without a correct book balance. In addition, the Jailer cannot make decisions about funds available to be transferred to the Jail Fund for certain expenses.

Kentucky Revised Statute (KRS) 441.135 requires the Jailer to maintain records of receipts and disbursements of the jail commissary fund and to prepare a report annually for the county treasurer. In addition, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual provides guidelines to maintaining records for the jail commissary. In accordance with these guidelines, the following records should be maintained for jail commissary funds:

- **DAILY CHECK-OUT SHEET** - Daily deposits are required. At the end of each business day the Jailer or assigned personnel should separate individual receipts into categories listed on the check-out sheet. The total of each category should be entered on the appropriate space provided. The amount deposited line should equal the amount of money on hand at the end of each day less start-up cash. A maximum of fifty dollars shall be used for start-up for the next business day. All daily detail (deposit form, cash receipts, etc.) should be attached to the form. If the total daily deposit is correct, post to the Jail Commissary Fund Receipts Journal.
- **JAIL COMMISSARY RECEIPTS JOURNAL** - Receipts should be posted to this journal on a daily basis. The total amount category should agree with the amount deposited line on the Daily Check-Out Sheet.
- **JAIL COMMISSARY DISBURSEMENTS JOURNAL** - Each check written must be posted to the proper category listed on the form. Checks should be issued for all expenditures made.
- **JAIL COMMISSARY SUMMARY AND RECONCILIATION** - The year to date summary section of this report will provide a cash balance at anytime during the fiscal year. Information for this section is obtained from totaled categories from the receipt and disbursement journals. A monthly cash balance shall be maintained. The Reconciliation section of this report reconciles the bank balance to the cash balance. A monthly cash reconciliation shall be maintained. This report may be used for the year-end report submitted to County Treasurer pursuant to KRS 441.135(2).

We recommend the Jailer comply with the guidelines prescribed by the State Local Finance Officer by maintaining the required financial records in the manner describe above. In addition, we recommend the jailer comply with applicable statutes by preparing and submitting an annual commissary report to the county treasurer at year-end. We also recommend accurate bank reconciliations be prepared monthly and in a timely manner. All outstanding checks and deposits in transit should be included on the reconciliation in order to present a correct reconciled balance. We recommend the Jailer contact the vendor for the computerized accounting system to obtaining a better understanding of how the system can be used to account for commissary and inmate funds separately. If the computerized system does not allow for separate accountings for these funds, separate bank accounts could be used to achieve this goal.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-13 The Jailer Should Maintain Accurate Records For The Jail Commissary Fund (Continued)

Jailer Tony Ball's Response: Swanson & Jail tracker is not set up for separate accounts. Swanson can provide the information need for the accounts. We are correcting these account.

County Judge/Executive Douglas Stephen's Response: This fund is outside the regulatory authority of the Fiscal Court and is the sole responsibility of the Jailer to properly manage. Due to this finding, I will request further investigation and review of this matter by the appropriate state agencies and emphasize proper management of this account to the Jailer.

2011-14 Funds Totaling \$18,152 Were Not Deposited To The Jail Commissary Fund And Deposits Were Not Always Made Intact Or In A Timely Manner

During the fiscal year ended June 30, 2011, known inmate funds totaling \$18,152 was not deposited to the Jail Commissary Fund. In January 2011, the jailer and his staff found that inmate receipts were not being deposited in a timely manner. A subsequent investigation by law enforcement revealed that after the cash drawer was closed out, the former bookkeeper was taking inmate funds home with her and not depositing them intact to the Jail Commissary Fund. The former bookkeeper was dismissed from employment on January 25, 2011 and was subsequently indicted in McCreary County Circuit Court. According to court records on June 22, 2011, she plead guilty in McCreary County Circuit Court to sixteen (16) counts of Theft by Failure to Make Required Disposition of Property and one (1) count of Abuse of Public Trust Over \$10,000. Based on court records, inmate funds which were not deposited by the former bookkeeper totaled \$16,476. Law enforcement recovered funds of \$7,139 at the former bookkeeper's home and then had jail personnel deposit the recovered funds to the Jail Commissary Fund. At the time of the investigation, the recovered amount was reported in court records to be \$6,914 and as a part of the plea agreement, the former bookkeeper agreed to make restitution to the McCreary County Jail Commissary Fund in the amount of \$9,562. The investigating officer told auditors that the amount recovered was based on a verbal confirmation from jail personnel and had not been audited. Based on our audit, \$7,139 was the actual amount recovered and deposited to the Jail Commissary Fund. As of June 30, 2011, no restitution had been made by the former bookkeeper.

We also noted that the deposits which cleared the bank were not always made in a timely manner and that the cash drawer was not closed out daily. The cash drawer was closed out whenever jail personnel chose to do so. Collection periods often covered several days. We tested all deposits for known receipts collected between July 1, 2010 and July 29, 2010. These receipts were deposited between August 9, 2010 and October 1, 2010 which is 38-64 days after the cash drawer was closed out. Multiple deposits were made on some days. We then tested deposits for known receipts collected between February 28, 2011 and March 28, 2011 and found that these receipts were deposited 7 to 9 days after the cash drawer was closed out. In addition, the deposit for receipts collected between May 30, 2011 and June 13, 2011 was not made intact. Both the cash movement report and the cash transaction report for this time period showed that a total of \$2,106 was collected. On June 13, 2011, only \$892 of this amount was deposited and the remaining amount was not deposited until July 14, 2011. Based on these findings, we also reviewed deposits made for cash drawer amounts for the fiscal year ending June 30, 2012. We found that the cash drawer amount for the period of November 29, 2011 through December 12, 2011 was \$2,878. Of this amount, \$1,886 was deposited on December 8, 2011 and the remaining \$992 was not deposited until December 27, 2011.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-14 Funds Totaling \$18,152 Were Not Deposited To The Jail Commissary Fund And Deposits Were Not Always Made Intact Or In A Timely Manner (Continued)

Funds not being deposited intact or not being deposited timely was allowed to occur because of the Jailer's lack of controls and oversight over the collection process of the Jail Commissary Fund. Lack of controls and oversight over the collection process increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. As reported above, funds were misappropriated for the fiscal year ended June 30, 2011. We compared all cash drawer amounts for the fiscal year ended June 30, 2011 to the amounts that were actually deposited. In addition to the \$16,476 noted above, we found that an additional \$1,676 was not deposited for the period of April 11, 2011 through April 18, 2011 during which a new bookkeeper was in charge of Jail Commissary Fund. As of June 30, 2011, known receipts of \$11,012 had not been deposited to the Jail Commissary Fund for the fiscal year then ended. This amount has not been included as revenue on the financial statements of the Jail Commissary Fund for the fiscal year ended June 30, 2011 and, therefore, is not included in the net assets or fund balance.

Kentucky Revised Statute (KRS) 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual requires deposits be made daily into a federally insured banking institution.

We recommend the jailer implement procedures to ensure that all deposits are made intact and on a daily basis. The cash drawer should be closed out daily and all collected amounts posted to a daily cash checkout sheet. The total of the daily cash check out sheet should be agreed to the amount deposited and any variances should be explained. A maximum of fifty dollars shall be used for start-up for the next business day. These findings will be referred to the Kentucky State Police (KSP).

Jailer Tony Ball's Response: The deposits are now being done on time now. The taxes are being sent on time now. We are correcting the accounts to may sure everything is in order at this time.

County Judge/Executive Douglas Stephen's Response: Please see above. [See response to 2011-13]

2011-15 Receipts Were Not Issued For All Jail Inmate Moneys Received And Some Receipts Were Altered After They Were Issued

We tested jail inmate receipts for the period of May 30, 2011 through June 13, 2011. Although the computer system used for the commissary generates a numbered receipt, jail personnel also issue pre-numbered manual receipts for inmate moneys collected. For the tested period, there were no pre-numbered manual receipts issued for five (5) transactions. In addition, the jailer's copy of two of the manual receipts issued had been changed after they were issued to show that the inmates purchased phone cards totaling \$165 from the available funds before they were deposited and posted to the inmates' accounts. Since the inmates do not sign a commissary sheet to indicate they have approved such purchases, we cannot be sure that the inmates' moneys were actually used for this purpose. These receipts should also be issued in sequence. We noted that one receipt was issued out of sequence and the copy maintained by the jailer had been altered. Receipt number 561856 was dated September 10, 2011. Those receipts issued prior to and after this receipt were dated June 9, 2011 and June 10, 2011, respectively, which was in our test period. In addition, the amount for which the receipt had been originally issued was reduced on the jailer's copy from \$466 to \$146.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-15 Receipts Were Not Issued For All Jail Inmate Moneys Received And Some Receipts Were Altered After They Were Issued (Continued)

Receipts not being issued or altered after issuance was allowed to occur because of the Jailer's lack of controls and oversight over the collection process of the Jail Commissary Fund. Lack of controls and oversight over the collection process increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Failure to properly receipt all inmate moneys collected or account for all receipt forms issued provides opportunity for misappropriation of funds.

Kentucky Revised Statute (KRS) 64.840 requires officials to prepare in triplicate receipts that meet the specifications of the state local finance officer upon collecting any fines, forfeitures, taxes, or fees. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual requires pre-numbered three-part receipt forms be issued for all receipts with the jailer retaining all copies of voided receipts.

We recommend that pre-numbered receipts be issued in triplicate and in numeric sequence for all jail commissary receipts. These receipts should not be altered after they are issued and all monies received should be deposited and posted to the inmates' accounts. No cash expenditures should be made. Receipts should not be altered to reflect inmate purchases prior to the amounts received being deposited and posted to the inmate accounts.

Jailer Tony Ball's Response: Inmates receipts will not be altered all money & receipt are to be put in safe on commissary accounts.

County Judge/Executive Douglas Stephen's Response: This issue remains outside the control of the Fiscal Court and myself, but I will request a meeting with the Jailer and his staff to implement a policy to rectify the management issues as related to the inmate funds. All impropriety will be referred for further investigation to the appropriate authorities.

2011-16 The Jailer Lacks Adequate Internal Controls Over Accounting Functions Of The Jail Commissary Fund And Lacks An Adequate Segregation Of Duties

The jailer lacks adequate internal controls over the accounting functions of the Jail Commissary Fund. Staff assigned to the accounting functions for the commissary records were not adequately trained to use the computerized accounting system properly and bookkeeping functions were not adequately segregated. Both the former and current bookkeepers performed the following duties with little oversight:

- Bookkeepers collected monies and issued receipts.
- Bookkeepers closed out the cash drawer and made the deposits.
- Bookkeepers prepared the bank reconciliations.
- Bookkeepers prepared the monthly sales tax reports.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-16 The Jailer Lacks Adequate Internal Controls Over Accounting Functions Of The Jail Commissary Fund And Lacks An Adequate Segregation Of Duties (Continued)

The lack of segregation of duties occurs because of the Jailer has failed to segregate incompatible duties or implement oversight when duties cannot be segregated. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. As a result of the lack of controls and oversight, the following occurred:

- Receipts were not accounted for and deposited on a daily basis. This resulted in a known theft of \$16,476 and other known undeposited receipts of \$1,676.
- Proper accounting records were not maintained.
- Bank reconciliations were not prepared accurately or in a timely manner.
- Pre-numbered receipts were not issued for all monies received.
- Pre-numbered receipts were altered after they were issued and portions of the monies collected were not deposited.
- Monthly sales tax reports were not accurately prepared or filed in a timely manner.

Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

We recommend the jailer strengthen internal controls over the accounting functions of the jail commissary fund by maintaining proper accounting records and establishing procedures to ensure that all receipts are deposited intact and in a timely manner. Jail staff assigned to the jail commissary should be adequately trained to operate the computerized accounting system. Additionally procedures should be put in place to ensure that no one employee is charged with all accounting functions. If this is not possible due to limited staff, the jailer could compensate for this by reviewing the accounting records, bank reconciliations, and deposits on a regular basis. Such review could be documented by the jailer's initials on the documents reviewed.

Jailer Tony Ball's Response: I am overseeing all deposits and checks being issued getting control over accounts. I have two deputy Jailer in charge of Inmate commissary office.

County Judge/Executive Douglas Stephen's Response: Please see above. [See response to 2011-13] The Fiscal Court has little recourse to ensure the Jailer and his staff exercise sound management of finances under their control.

2011-17 Proper Documentation Should Be Maintained For All Jail Commissary Fund Expenditures And Invoices Should Be Paid Within Thirty Working Days

During our review of expenditures, we noted numerous deficiencies in expenditure procedures of the McCreary County Jail Commissary Fund. From our sample of tested expenditures, we noted the following deficiencies:

- Documentation was not maintained for all expenditures of the Jail Commissary Fund. No documentation was provided to the auditor for four (4) out of the fifteen (15) expenditures selected for testing.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-17 Proper Documentation Should Be Maintained For All Jail Commissary Fund Expenditures And Invoices Should Be Paid Within Thirty Working Days (Continued)

From our sample of tested expenditures, we noted the following deficiencies: (Continued)

- We noted one unusual invoice from a local business that was computer generated. The invoice number was one (1) and there was no telephone number on the invoice.
- Five (5) of the tested invoices were not paid within thirty (30) working days and these invoices were not cancelled.
- One invoice was not an original.
- One invoice included a previous balance and a late fee.

The above deficiencies over expenditures were allowed to occur because of the Jailer's lack of controls and oversight over expenditures. The following can happen as a result of the above deficiencies:

- Failing to cancel invoices when payment is made can result in paying invoices twice.
- Failing to maintain adequate documentation can result in paying invoices for services or supplies that were not provided to the county.
- Failing to pay bills within thirty (30) days can result in amounts not being recorded timely on the expenditures ledger and can also result in payment of finance charges and late fees.

Good internal controls dictate that adequate original supporting documentation be maintained for all disbursements. All original vendor invoices and receipts should be maintained including any supporting documentation and cancelled upon payment. Kentucky Revised Statute (KRS) 65.140 also states "Unless the purchaser and vendor otherwise contract all bills for goods and services shall be paid within 30 working days of receipt of a vendor invoice." We recommend the jailer maintain original invoices for all expenditures and pay all invoices within thirty (30) working days as required by statute. All invoices should be stamped, perforated, or otherwise cancelled in order to ensure that duplicate payment is not made.

Jailer Tony Ball's Response: Invoices are to be paid timely and this will be cancelled.

County Judge/Executive Douglas Stephen's Response: Please see above. [See response to 2011-13]

2011-18 The Jailer Should Transfer Fees Due To The Fiscal Court In A Timely Manner

The jailer collects booking, housing, medical and other fees from inmates. We noted these fees were not paid to the fiscal court on a set monthly or other set basis. During the fiscal year ended June 30, 2011, payments totaling \$21,583 were made at four (4) different times throughout the fiscal year. Remaining payments due as of June 30, 2011 were subsequently made on July 26, 2011. However, as of January 31, 2012, no other payments had been made to the fiscal court for the first seven (7) months of the fiscal year ending June 30, 2012. The county's written policies do not specify when the fees are to be paid. Failure to transfer the fees on a regular basis makes the funds unavailable for the Jailer and Fiscal Court to expend for Jail Fund expenditures. Pursuant to policies enacted by the fiscal court, the jailer collects booking, housing, medical and other fees from inmates. These fees are paid to the Jail Fund maintained by the County Treasurer and have

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-18 The Jailer Should Transfer Fees Due To The Fiscal Court In A Timely Manner (Continued)

been adjusted off of the Jail Commissary Fund receipts and disbursements for reporting purposes. They have been included as receipts of the county's Jail Fund. Therefore, we recommend the jailer pay all amounts due up to date and consult with the county judge/executive and fiscal court to determine how often these funds should be transferred to the county's Jail Fund.

Jailer Tony Ball's Response: Will get with County Judge/Executive to set up a plan to pay the Fees on time.

County Judge/Executive Douglas Stephen's Response: The Fiscal Court has instituted a policy regarding issuance of fees to inmates to help offset the operational costs of the jail. I am going to ask the jailer to create a separate account which will incur receipt of booking, housing, and other inmate fees as require by the Fiscal Court. In addition, I will ask the Jailer, with assistance from the Department of Corrections, to implement a collection policy in hopes of ensuring the timely collection of and reporting of these fees to the Fiscal Court.

2011-19 Sales Tax Reports Were Not Prepared Correctly By Jail And Were Not Always Submitted In A Timely Manner

Monthly sales tax reports were not prepared correctly by jail and were not always filed in a timely manner. The Kentucky Department of Revenue (Revenue) allows the taxpayer to retain 1.75% of the taxes due as compensation for filing reports in a timely manner. Although the jailer filed eight (8) reports in a timely manner, no compensation was taken on the reports resulting in lost revenue of \$35. We also noted that non taxable items sold were included as taxable on all reports filed. Five (5) of the reports that were filed during the fiscal year were filed late resulting in penalties and late fees of \$171. In addition, no report was filed for the month of May 2011.

The Jailer's lack of controls and oversight over reporting allowed sales tax reports to be prepared incorrectly and filed late. Incorrectly filing sales tax reports without taking credit for the 1.75% allowed results in less funds being available to be spent for the benefit of the inmates. In addition, filing sales tax reports late results in penalties and late fees being assessed by Revenue which is expenditure not beneficial to the inmates.

Kentucky Revised Statute (KRS) 139.540 states all sales taxes are due and payable to Revenue and shall be remitted to Revenue on or before the twentieth day of the next month. In addition, KRS 139.550 requires the monthly returns to be filed on or before the twentieth day of the month following each calendar month on the form required by Revenue.

We recommend that monthly sales tax reports be properly prepared and paid in a timely manner.

Jailer Tony Ball's Response: The sales tax are being paid on time as of now this is also being solved.

County Judge/Executive Douglas Stephen's Response: The Jailer should work with his staff to manage accurate reports and payments as required by the state in a timely manner. Again, the Fiscal Court has no authority to address this issue given the authority delegated to the Jailer as an elected official.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-20 The McCreary County Airport Board Lacks An Adequate Segregation Of Duties Over All Accounting Functions

We noted a lack of segregation of duties exists over the following accounting functions of the McCreary County Airport Board, a discretely presented component unit of the McCreary County Fiscal Court: receipts collection and processing, recording-keeping, disbursement processing, and report preparation.

The lack of segregation of duties occurs because of the Airport Board has failed to segregate incompatible duties or implement oversight when duties cannot be segregated. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

To adequately protect employees in the normal course of performing their assigned functions and to protect the McCreary County Airport Board against inaccurate financial reporting, we recommend the board separate the duties in preparing and depositing receipts, recording transactions, preparing and signing disbursements, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this. We also recommend the McCreary County Airport Board request the bank to include both the front and backs of checks on the bank statements.

Airport Board's Response: No response.

County Judge/Executive Douglas Stephen's Response: The Airport Board, by law, operates autonomously of the Fiscal Court, but I will request the Board comply with these recommendations.

2011-21 The McCreary County Airport Board Should Improve Purchase And Procurement Procedures

During our review of expenditures of the McCreary County Airport Board, a discretely presented component unit of the McCreary County Fiscal Court, we noted deficiencies in purchase and procurement procedures. From our sample of tested expenditures we noted the following:

- seventeen (17) invoices were not approved by Airport Board before payment
- eighteen (18) invoices were not paid timely, which resulted in \$51 in penalties being paid

The above deficiencies in purchasing and procurement were allowed to occur because of the Airport Board's lack of controls and oversight over purchasing. The following can happen as a result of the above deficiencies:

- Failing to obtain Airport Board approval can result in purchasing items the Airport Board does not feel are necessary.
- Failing to pay bills within thirty (30) days can result in amounts not being recorded timely on the expenditures ledger and can also result in payment of finance charges and late fees.

Good internal controls dictate that adequate original supporting documentation be maintained for all disbursements. All original vendor invoices and receipts should be maintained including any supporting documentation, approved by the Airport Board prior to payment, and cancelled upon payment. Approval of payment should be documented in the minutes of the Airport Board's meetings. Kentucky Revised Statute

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-21 The McCreary County Airport Board Should Improve Purchase And Procurement Procedures (Continued)

(KRS) 65.140 also states "Unless the purchaser and vendor otherwise contract all bills for goods and services shall be paid within 30 working days of receipt of a vendor invoice. We recommend the Airport Board maintain all original vendor invoices including any supporting documentation, cancel all vendor invoices when paid, approve all invoices before payment is made, document this approval in the minutes of the Airport Board's meetings, and comply with KRS 65.140 by paying vendors within thirty (30) working days unless the purchaser and vendor otherwise contract.

Airport Board's Response: No response.

County Judge/Executive Douglas Stephen's Response: The Fiscal Court delegates no funding to the Airport Board and again can only request the Board follow sound financial management practices.

2011-22 The Stearns Historical Area Development Authority (SHADA) Lacked An Adequate Segregation Of Duties Over All Accounting Functions

We noted a lack of segregation of duties existed over the following accounting functions of the Stearns Historical Area Development Authority (SHADA), a discretely presented component unit of the McCreary County Fiscal Court: receipts collection and processing, recording-keeping, disbursement processing, and report preparation.

The lack of segregation of duties occurred because SHADA failed to segregate incompatible duties or implement oversight when duties could not be segregated. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would have prevented the same person from having a significant role in these incompatible functions.

To adequately protect employees in the normal course of performing their assigned functions and to protect SHADA against inaccurate financial reporting, SHADA should have separated the duties in preparing and depositing receipts, recording transactions, preparing and signing disbursements, preparing reports, and reconciling bank accounts. If any of these duties could not be segregated due to limited staff or budget, strong oversight should have been provided over the employee responsible. The employee providing the oversight should have documented this. On December 14, 2010, SHADA was dissolved by the McCreary County Fiscal Court.

County Judge/Executive Douglas Stephen's Response: During the process of this audit, the SHADA Board took steps to dissolve the board and transfer all assets to the McCreary County Heritage Foundation, a non-profit organization that operates independently of the Fiscal Court. These recommendations will be referred to the Heritage Foundation.

Auditor's Reply: The Stearns Historical Area Development Authority (SHADA) was dissolved by the Fiscal Court on December 14, 2010. All capital assets belonging to SHADA were donated to the McCreary County Heritage Foundation and all remaining debt was paid off by McCreary County Heritage Foundation.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-23 The McCreary County Tourist Commission Should Improve Internal Control Procedures Over Receipts And Disbursements By Maintaining All Required Records And By Segregating Duties Over All Accounting Functions

We noted a lack of segregation of duties exists over the following accounting functions of the McCreary County Tourist Commission, a discretely presented component unit of the McCreary County Fiscal Court: receipts collection and processing, recording-keeping, disbursement processing, and report preparation. In addition, auditor noted financial statements provided did not accurately reflect the Tourist Commission's financial position and that bank reconciliations were not being completed on the three (3) bank accounts maintained by the Tourist Commission.

The lack of segregation of duties occurs because of the Tourist Commission has failed to segregate incompatible duties or implement oversight when duties cannot be segregated. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

To adequately protect employees in the normal course of performing their assigned functions and to protect the Tourist Commission against inaccurate financial reporting, we recommend the Tourist Commission separate the duties in preparing and depositing receipts, recording transactions, preparing and signing disbursements, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this. We also recommend the McCreary County Tourist Commission request the bank to include both the front and backs of checks on the bank statements.

Tourist Commission's Response: No response.

County Judge/Executive Douglas Stephen's Response: I will meet with Tourist Commission officials, the Commission's Director, and ensure sound financial management practices are followed and the issues noted above are addressed.

2011-24 The McCreary County Tourist Commission Should Report All Wages To The Fiscal Court

During our audited, we noted that the McCreary County Tourist Commission, a discretely presented component unit of the McCreary County Fiscal Court, directly paid an employee \$300 per month which they did not report to the Fiscal Court. This employee also receives a payroll check from the Fiscal Court on behalf of the Tourism Commission. Since the additional wages were not reported to the Fiscal Court, withholdings and matching were not properly made and this amount was not reported on payroll reports or on the employee's W-2. The Fiscal Court handles all payroll reporting requirements for the Tourist Commission. The Tourist Commission submits the funds to the Fiscal Court for the cost of payroll and the Fiscal Court issues payroll checks to the employee of the Tourist Commission. We recommend the Tourist Commission report all payroll amounts to the Fiscal Court so proper amounts can be reported and paid to all agencies.

Tourist Commission's Response: No response.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

FINANCIAL STATEMENT FINDINGS (Continued)

2011-24 The McCreary County Tourist Commission Should Report All Wages To The Fiscal Court
 (Continued)

County Judge/Executive Douglas Stephen's Response: This issue was corrected with changes made to the Fiscal Court salary schedule following the initial discovery of this item by auditors. The Tourist Commission Director is a county employee and is being treated as such with all payroll managed by the Judge's Office by the Finance Officer.

2011-25 The McCreary County Tourist Commission Should Improve Purchase And Procurement
 Procedures

During our review of expenditures of the McCreary County Tourist Commission, a discretely presented component unit of the McCreary County Fiscal Court, we noted deficiencies in purchase and procurement procedures. From our sample of tested expenditures we noted the following:

- six (6) copies were used to pay invoices
- three (3) invoices could not be located
- one (1) instance where discounts were not taken
- one (1) instance where sales tax was paid
- five (5) bills were not paid in a timely manner
- twenty-three (23) bills were not properly canceled
- three (3) bills were not approved for payment by the Tourist Commission
- twenty (20) bills were not approved by the Tourist Commission or not approved until after the payments were made,

Good internal controls dictate that adequate original supporting documentation be maintained for all disbursements. All original vendor invoices and receipts should be maintained including any supporting documentation, approved by the Tourist Commission prior to payment, and cancelled upon payment. Approval of payment should be documented in the minutes of the Tourist Commission's meetings. Kentucky Revised Statute (KRS) 65.140 also states "Unless the purchaser and vendor otherwise contract all bills for goods and services shall be paid within 30 working days of receipt of a vendor invoice."

We recommend the Tourist Commission maintain all original vendor invoices including any supporting documentation, cancel all vendor invoices when paid, approve all invoices before payment is made, document this approval in the minutes of the Tourist Commission's meetings, and comply with KRS 65.140 by paying vendors within thirty (30) working days unless the purchaser and vendor otherwise contract.

Tourist Commission's Response: No response.

County Judge/Executive Douglas Stephen's Response: I understand the Tourist Director is implementing a financial management software system that will aid in alleviating many of these concerns. I will work with the Director and the Commission to ensure the items are corrected and managed properly in the future.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2011
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

2011-26 The County Treasurer Should Sign All Warrants For Payment Of Funds From The County Treasury

Federal Program: CFDA #14.228 – Community Block Grant Program
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Activities Allowed and Unallowed, Allowable Costs/Cost Principles
Amount of Questioned Costs: \$0

During the test of single audit expenditures, we noted that the three checks issued from the Multi-Generational Center Fund for disbursements on the Multi-Generational Center Project were not co-signed by the county treasurer. The Multi-Generational Center Fund is a fund of the McCreary County Fiscal Court which is included on the quarterly financial reports submitted to the Kentucky Department for Local Government. Of the three checks in question, two were signed by the County Judge/Executive and Deputy Judge/Executive and the third check was signed by two members on the McCreary County Park Board, a blended component unit of the McCreary County Fiscal Court.

Controls over expenditures of the Multi-Generational Center Fund are not properly designed to require the signature on all checks of the county judge/executive or his designee and the co-signature of the county treasurer pursuant to Kentucky Revised Statutes. Since checks are being signed without following statutory requirements, expenditures could be made outside the interest of the fiscal court or that are not allowable under the guidelines of the federal grant agreement. Expenditures which are not allowable under the federal grant agreement can ultimately lead to the Kentucky Department for Local Government or the U.S. Department of Housing and Urban Development requiring the county to return the funds.

KRS 68.020 states “All warrants for the payment of funds from the county treasury shall be co-signed by the county treasurer and the county judge/executive”. In addition, Kentucky Revised Statute (KRS) 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual issued by the Kentucky Department for Local Government states, “The county treasurer is not authorized to designate anyone to sign checks on the county treasurer’s behalf”. We recommend all warrants for payment of funds be signed by the county judge/executive or designee and co-signed by the county treasurer.

County Judge/Executive Douglas Stephen’s Response: I am unsure how or why this event occurred as my administration was not involved in the project noted above. However, I will ensure there will be no such subsequent occurrences.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**


MCCREARY COUNTY FISCAL COURT


**For The Fiscal Year Ended
June 30, 2011**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
McCREARY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2011

The McCreary County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


County Judge/Executive


County Treasurer

